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| Document submitted               | Annual Securities Report   |
| Applicable law clause            | Article 24, Paragraph 1 of the Financial Instruments and Exchange Act      |
| Destination                      | Director General of the Kanto Finance Bureau                               |
| Date of submission               | June 23, 2016  |
| Fiscal year                      | The 113th term (from April 1, 2015 to March 31, 2016)                      |
| Corporate name                   | TSUGAMI CORPORATION  |
| Name and title of representative | Takao Nishijima, Chairman and CEO  |
| Address of home office           | 12-20, Tomizawa-cho, Nihonbashi, Chuo-ku, Tokyo                            |
| Telephone number                 | +81-3-3808-1711 (key number)   |
| Contact person                   | Takeshi Watanabe, General Manager, Administration                          |
| Nearest contact point            | 12-20, Tomizawa-cho, Nihonbashi, Chuo-ku, Tokyo                            |
| Telephone number                 | +81-3-3808-1711 (key number)   |
| Contact person                   | Takeshi Watanabe, General Manager, Administration                          |
| Place for public inspection      | Tokyo Stock Exchange, Inc.<br>(2-1, Kabutocho, Nihonbashi, Chuo-ku, Tokyo) |

## Chapter 1. Corporate Information

### Section 1. Overview of the Company's Situation

#### 1. Changes in major financial data

##### (1) Consolidated financial data

| Fiscal term   | 109 <sup>th</sup> term | 110 <sup>th</sup> term | 111 <sup>th</sup> term | 112 <sup>th</sup> term | 113 <sup>th</sup> term |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|
| Closing month and year  | March<br>2012          | March<br>2013          | March<br>2014          | March<br>2015          | March<br>2016          |
| Net sales (million yen)   | 35,739                 | 52,812                 | 32,225                 | 54,132                 | 40,132                 |
| Ordinary income (loss) (million yen)  | 3,875                  | 6,800                  | 1,932                  | 7,745                  | 1,095                  |
| Net income attributable to owners of parent (million yen)                               | 2,281                  | 4,207                  | 344                    | 5,297                  | 877                    |
| Comprehensive income (million yen)  | 2,503                  | 4,885                  | 1,085                  | 7,848                  | -1,428                 |
| Net assets (million yen)  | 27,717                 | 31,998                 | 31,587                 | 37,279                 | 32,594                 |
| Total assets (million yen)  | 50,757                 | 45,919                 | 52,250                 | 56,829                 | 47,859                 |
| Net assets per share (yen)  | 372.21                 | 427.86                 | 428.18                 | 522.94                 | 473.78                 |
| Net income (loss) per share (yen)   | 33.88                  | 57.16                  | 4.72                   | 74.37                  | 13.04                  |
| Net income per share after residual equity adjustment (yen)                             | 33.43                  | 56.28                  | 4.64                   | 72.92                  | 12.77                  |
| Capital adequacy ratio (%)  | 53.9                   | 68.6                   | 59.3                   | 64.1                   | 66.2                   |
| Earnings on equity (%)  | 9.27                   | 14.29                  | 1.10                   | 15.72                  | 2.58                   |
| Price-earnings ratio (times)  | 27.83                  | 9.48                   | 130.68                 | 10.34                  | 31.37                  |
| Cash flows from operating activities (million yen)                                      | 499                    | 1,914                  | 714                    | 3,135                  | 4,226                  |
| Cash flows from investing activities (million yen)                                      | -1,915                 | -2,381                 | -713                   | -1,706                 | -959                   |
| Cash flows from financing activities (million yen)                                      | 2,608                  | 303                    | 445                    | -2,822                 | -3,520                 |
| Cash and cash equivalents at the end of the term (million yen)                          | 5,264                  | 5,296                  | 6,044                  | 4,952                  | 4,589                  |
| Number of employees<br>(Average number of temporary employees in addition to the above) | 1,733<br>(179)         | 1,420<br>(161)         | 1,832<br>(130)         | 1,959<br>(102)         | 1,614<br>(105)         |

(2) Financial data of the submitting company

| Fiscal term   | 109 <sup>th</sup> term | 110 <sup>th</sup> term | 111 <sup>th</sup> term | 112 <sup>th</sup> term | 113 <sup>th</sup> term |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|
| Closing month and year  | March<br>2012          | March<br>2013          | March<br>2014          | March<br>2015          | March<br>2016          |
| Net sales (million yen)   | 37,382                 | 35,852                 | 29,491                 | 34,992                 | 31,852                 |
| Ordinary income (loss) (million yen)  | 3,403                  | 6,914                  | 1,330                  | 2,522                  | 252                    |
| Net income (loss) (million yen)   | 1,916                  | 5,125                  | -70                    | 1,698                  | 292                    |
| Capital (million yen)   | 12,345                 | 12,345                 | 12,345                 | 12,345                 | 12,345                 |
| (Number of shares issued) (thousand shares)   | (74,919)               | (74,919)               | (74,919)               | (74,919)               | (74,919)               |
| Net assets (million yen)  | 26,367                 | 30,837                 | 29,692                 | 30,494                 | 26,574                 |
| Total assets (million yen)  | 45,942                 | 42,090                 | 41,800                 | 39,050                 | 33,281                 |
| Net assets per share (yen)  | 353.86                 | 412.08                 | 401.99                 | 427.60                 | 386.23                 |
| Dividend per share  | 10.00                  | 12.00                  | 12.00                  | 14.00                  | 16.00                  |
| (Of which, interim dividend per share) (yen)  | (5.00)                 | (6.00)                 | (6.00)                 | (6.00)                 | (8.00)                 |
| Net income (loss) per share (yen)   | 28.47                  | 69.64                  | -0.97                  | 23.85                  | 4.34                   |
| Net income per share after residual equity adjustment (yen)                             | 28.09                  | 68.56                  | --                     | 23.39                  | 4.25                   |
| Capital adequacy ratio (%)  | 56.6                   | 72.1                   | 69.6                   | 76.2                   | 77.6                   |
| Earnings on equity (%)  | 8.16                   | 18.19                  | --                     | 5.78                   | 1.05                   |
| Price-earnings ratio (times)  | 33.12                  | 7.78                   | --                     | 32.24                  | 94.18                  |
| Dividend payout ratio (%)   | 35.1                   | 17.2                   | --                     | 58.7                   | 368.4                  |
| Number of employees<br>(Average number of temporary employees in addition to the above) | 475<br>(163)           | 452<br>(143)           | 441<br>(111)           | 430<br>(90)            | 439<br>(93)            |

- (Note)
1. Net sales do not include consumption taxes (consumption tax and local consumption tax; the same shall apply hereinafter).
  2. With the application of the Accounting Standard for Business Combinations (Accounting Standards Board of Japan Statement No. 21; September 13, 2013) etc., from the consolidated fiscal year under review, Net income is presented as Net income attributable to owners of parent.
  3. Since net losses were posted, net income per share after residual equity adjustment in the financial data of the submitting company for the 111th term have no value, although there were residual securities.
  4. Since net losses were posted in the 111th term, earnings on equity, price-earnings ratio and the dividend payout ratio in the financial data of the submitting company has no value.

## 2. Corporate history

|                |  |
|----------------|--|
| March 1937     | Tsugami Mfg., Co., Ltd. established with capital of 2 million yen in Nagaoka, Niigata  |
| December 1938  | Head office relocated to Kyobashi-ku, Tokyo  |
| September 1941 | All plants in Nagaoka factory completed  |
| February 1945  | Tsugami Precision Engineering Industry Co., Ltd. absorbed and renamed Shinshu Plant  |
| February 1948  | Head office relocated to Minato-ku, Tokyo  |
| May 1949       | Listed on Tokyo Stock Exchange, Osaka Securities Exchange, and Niigata Stock Exchange  |
| October 1961   | Toyo Seiki K.K. absorbed and made Ibaraki Plant  |
| July 1968      | Zao Seisakusho K.K. established  |
| September 1970 | Tsugami <i>Sogo Kenkyusho</i> (Research Institute) established in Nagaoka.   |
| November 1970  | Corporate name changed to TSUGAMI CORPORATION  |
| September 1974 | Tsugami Machine Tool Trading Corp. established   |
| March 1975     | Ibaraki Plant closed and sold  |
| October 1982   | Corporate name changed to TSUGAMI CORPORATION  |
| May 1988       | Shares of Azuma Shimamoto Ltd. (corporate name changed to Tsugami Shimamoto Ltd.) acquired   |
| April 1991     | TSUGAMI PRECISION CO., LTD. (currently a consolidated subsidiary) established  |
| May 1991       | Weldon Machine Tool Inc., a U.S. manufacturer of machine tools, acquired (corporate name changed to WMT Corporation)   |
| April 1997     | Tsugami High Tech Co., Ltd. (currently TSUGAMI MACHINAERY CO., LTD., a consolidated subsidiary) established  |
| November 2001  | Shares of Tsugami Techno Co., Ltd. acquired  |
| December 2002  | Liquidation of WMT Corporation completed   |
| September 2003 | PRECISION TSUGAMI (CHINA) CORPORATION (currently a consolidated subsidiary) established  |
| April 2004     | Tsugami Machine Tool Trading Corp. absorbed  |
| October 2004   | Shimamoto Precision Ltd. and Tsugami Techno Co., Ltd. merged. The corporate name of the new company as a result of the merger is Tsugami Shimamoto Ltd.<br>Tsugami High Tech Co., Ltd. and TSUGAMI MACHINAERY CO., LTD. merged. The corporate name of the new company is TSUGAMI MACHINAERY CO., LTD. (currently a consolidated subsidiary). |
| February 2005  | Invests in REM Sales LLC (currently an affiliate to which the equity method is not applied)  |
| November 2005  | New plants in Nagaoka and Shinshu factories completed  |
| October 2006   | TSUGAMI GENERAL SERVICE CO., LTD. and Tsugami Tool Co., Ltd. merged. The corporate name of the new company formed as a result of the merger is TSUGAMI GENERAL SERVICE CO., LTD. (currently a consolidated subsidiary).  |
| November 2007  | TSUGAMI GmbH (currently a non-consolidated subsidiary) established   |
| January 2009   | Tsugami Shimamoto Ltd. absorbed  |
| February 2010  | TSUGAMI KOREA Co., Ltd. (currently a non-consolidated subsidiary) established  |
| November 2010  | Shinagawa Precision Machinery (Zhejiang) Co., Ltd. (currently a non-consolidated subsidiary) established   |
| April 2011     | TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED (currently a non-consolidated subsidiary) established in India.  |
| June 2011      | TSUGAMI TECH SOLUTIONS INDIA PRIVATE LIMITED (currently a non-consolidated subsidiary) established in India.   |
| March 2012     | TSUGAMI Universal Pte. Ltd. (currently a non-consolidated subsidiary) established in Singapore.  |
| April 2013     | TSUGAMI GENERAL SERVICE CO., LTD. and TSUGAMI PRECISION CO., LTD. merged. The corporate name of the new company formed as a result of the merger is TSUGAMI GENERAL SERVICE CO., LTD. (currently a consolidated subsidiary).   |
| July 2013      | Precision Tsugami (China) Corporation Limited (currently a non-consolidated subsidiary) established  |
| September 2013 | Precision Tsugami (Hong Kong) Limited (currently a non-consolidated subsidiary) established  |
| April 2015     | TSUGAMI GmbH changed its trade name to TSUGAMI EUROPE GmbH (currently a non-consolidated subsidiary).  |

### 3. Businesses

The Group consists of TSUGAMI Corporation (“the Company”), 12 subsidiaries (of which seven are consolidated subsidiaries), and one affiliate and engages primarily in the manufacture and sale of Automatic lathes, Grinding machines, Machining centers, and Rolling machines chiefly in Japan and China. The Group undertakes additional business activities, including research on individual companies and other services.

#### (1) Positions of Group companies in the Group’s businesses

The following is a description of the positions of Group companies in the Group’s businesses in Japan, China and South Korea:

##### (i) Japan

The Company manufactures and sells machine tools. Products are sold also by TSUGAMI Machinery Co., Ltd., subsidiary.

The Company purchases certain parts and products from subsidiary PRECISION TSUGAMI (CHINA) CORPORATION.

##### (ii) China

PRECISION TSUGAMI (CHINA) CORPORATION manufactures and sells machine tools. Shinagawa Precision Machinery (Zhejiang) Co., Ltd. manufactures and sells machine tool castings. PRECISION TSUGAMI (CHINA) CORPORATION also purchases certain parts from the Company and Shinagawa Precision Machinery (Zhejiang) Co., Ltd., and sells products to the Company.

##### (iii) South Korea

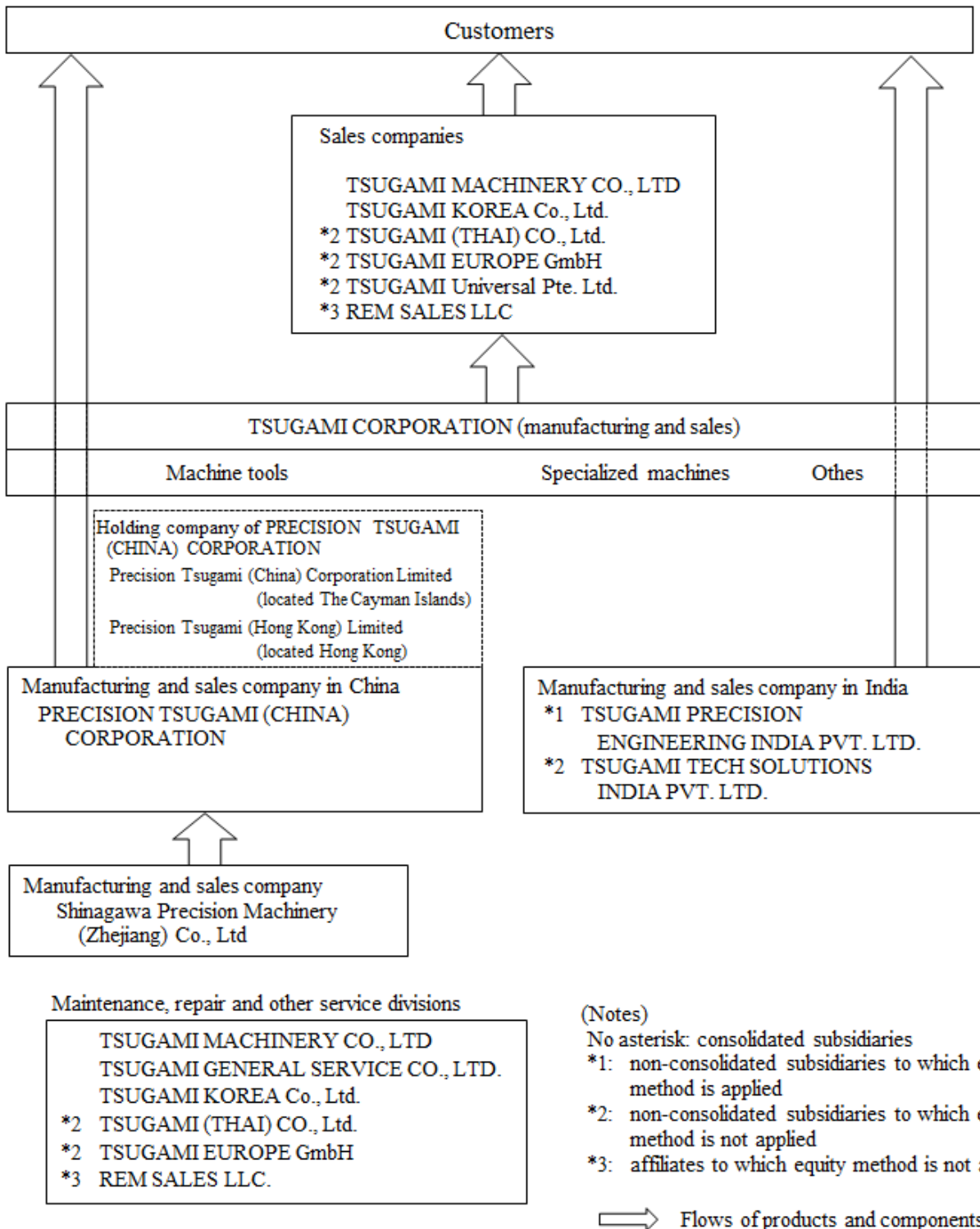
TSUGAMI Korea Co., Ltd. sells products of the Company.

TSUGAMI (Thai) Co., Ltd., TSUGAMI EUROPE GmbH and TSUGAMI Universal Pte. Ltd., subsidiaries, and REM Sales LLC, an affiliate, sell products of the Company.

After-sales services for the products of the Group are provided by the Company and the subsidiaries TSUGAMI Machinery Co., Ltd. and TSUGAMI (Thai) Co., Ltd.

(2) Business diagram

Businesses operated by the Group are as presented in the following figure.



#### 4. Situations of affiliates

| Name  | Address                             | Capital or investments       | Major business  | Ownership of voting rights (%) | Relations  |
|---|-------------------------------------|------------------------------|---|--------------------------------|--|
| (Consolidated subsidiaries)                                       |                                     |                              |   |                                |  |
| TSUGAMI MACHINAERY CO., LTD.                                      | Kawasaki-ku, Kawasaki-shi, Kanagawa | 60 million yen               | Sales, installation and repairing of machine tool parts in Japan.   | 100                            | Sells products and parts of the Company; installs and repairs products of the Company. There are interlocking officers.  |
| TSUGAMI GENERAL SERVICE CO., LTD.                                 | Nagaoka-shi, Niigata                | 42 million yen               | Inspections and maintenance of buildings and facilities of factories and non-life insurance agency operations in Japan. | 100                            | Checks and maintains buildings and equipment on the premises of the Company's plants; carries out the agency of nonlife insurance of the Company. There are interlocking officers. |
| PRECISION TSUGAMI (CHINA) CORPORATION (Note 1, 2, 3)              | Zhejiang, China                     | 287 million yuan             | Manufacturing and sales of machine tools in China.  | 100 (100)                      | Manufactures and sells products of the Company. There are interlocking officers.   |
| Shinagawa Precision Machinery (Zhejiang) Co., Ltd (Note 3)        | Zhejiang, China                     | 35 million yuan              | Manufacturing and sales of machine tool castings in China.  | 100 (100)                      | Manufactures and sells of machine tool castings for products of the Company. There are interlocking officers.  |
| TSUGAMI KOREA Co., Ltd.   | Seoul, South Korea                  | 1,000 million won            | Sales of machine tools in South Korea.  | 100                            | Sells products of the Company. There are interlocking officers.  |
| Precision Tsugami (China) Corporation Limited (Note 1)            | The Cayman Islands                  | 3 Hong Kong dollar           | Holding Company   | 100                            | Holds all shares in Precision Tsugami (Hong Kong) Limited. There are interlocking officers.  |
| Precision Tsugami (Hong Kong) Limited (Note 1, 3)                 | Hong Kong, China                    | 490 million Hong Kong dollar | Holding Company   | 100 (100)                      | Holds all shares in PRECISION TSUGAMI (CHINA) CORPORATION. There are interlocking officers.  |
| (Non-consolidated subsidiaries to which equity method is applied) |                                     |                              |   |                                |  |
| TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED (Note 3)      | Oragadam, Dt. Tamil Nadu, India     | 495 million Indian rupee     | Manufacturing and sales of machine tools in India.  | 90.9 (15.1)                    | Manufactures and sells products of the Company. There are interlocking officers.   |

(Note) 1. PRECISION TSUGAMI (CHINA) CORPORATION, Precision Tsugami (China) Corporation Limited and Precision Tsugami (Hong Kong) Limited are specified subsidiaries.

2. The ratio of the net sales of PRECISION TSUGAMI (CHINA) CORPORATION (excluding intra-Group sales among consolidated companies) to consolidated net sales exceeded 10%.

Information on major profit and other items

|                     |                    |
|---------------------|--------------------|
| (1) Net sales       | 23,776 million yen |
| (2) Ordinary income | 1,056 million yen  |
| (3) Net income      | 805 million yen    |
| (4) Net assets      | 9,601 million yen  |
| (5) Total assets    | 18,894 million yen |

3. The figure in the parenthesis is the indirect ownership of voting rights.

## 5. Employees

### (1) Group employees

As of March 31, 2016

| Business segment | Number of employees |       |
|------------------|---------------------|-------|
| Japan            | 483                 | (105) |
| China            | 1,110               | (--)  |
| South Korea      | 21                  | (--)  |
| Total            | 1,614               | (105) |

(Note) 1. The number of employees is the number of people employed by the Group. The figure in parentheses is the annual average of temporary employees and is not included in the number of employees.

2. The number of employees downed by 353 from the end of the previous fiscal year to 1,110 because of a significant decrease in production at PRECISION TSUGAMI (CHINA) CORPORATION in the fiscal year under review.

### (2) Employees of the submitting company

As of March 31, 2016

| Number of employees | Average age | Average service years | Average annual salary<br>(thousand yen) |
|---------------------|-------------|-----------------------|---|
| 439 (93)            | 42.7        | 17.9                  | 6,256                                   |

(Note) 1. The number of employees is the number of people employed by the Group. The figure in parentheses is the annual average of temporary employees and is not included in the number of employees. Workers on loan from other companies to the Company (seven employees) are included. Workers on loan from the Company to other companies (85 employees) are not included. The employees of the Company are classified into Japan Segment.

2. The average annual salary (tax included) includes overtime charges and bonuses.

### (3) Labor union

The labor union of the Company belongs to JAM, an industrial union. The number of union members, who have concluded union-shop contracts, is 285.

Labor-management relations are good.



## Section 2. Business Situation

### 1. Overview of operating results

#### (1) Operating results

During the consolidated fiscal year under review, the Japanese economy remained on a modest recovery path, with corporate earnings and employment improving. However, uncertainty about the future of the economy remains, given a slowdown in Chinese economic growth, a fall in the oil price, and the sharp appreciation of the yen.

In the machine tool industry, capital expenditure was firm in the domestic market owing to improved corporate earnings. Meanwhile, the U.S. and European economies were stable, while the Chinese economy slowed.

In this environment, TSUGAMI Corporation (the "Company") and its affiliates (the "Group") sought to boost sales in the IT sector and a wide range of other industries. Despite these efforts, net sales declined from a year ago, reflecting a reactionary fall in demand for smartphones compared with the previous fiscal year and the effect of a slowdown in the Chinese market. Income also fell, reflecting the decline in sales, a deterioration in the cost to sales ratio associated with a production adjustment from the second quarter, and the effect of the stronger yen.

Consolidated net sales for the fiscal year under review decreased 25.9% year on year, to 40,132 million yen.

Consolidated net sales in Japan increased 16.3% year on year, to 11,298 million yen. Consolidated exports decreased 35.1% year on year, to 28,834 million yen. The export ratio decreased from 82.1% for the previous fiscal year, to 71.8%.

Consolidated operating income decreased 70.7% year on year, to 2,125 million yen. Consolidated ordinary income decreased 85.9% year on year, to 1,095 million yen and Consolidated net income attributable to owners of parent decreased 83.4% year on year, to 877 million yen for the fiscal year under review.

Operating results by business segment are as follows:

(i) In Japan, net sales stood at 32,027 million yen, down 9.5 % year on year. Operating loss was 28 million yen.

(ii) In China, net sales were 24,734 million yen, down 36.5 % year on year. Operating income was 1,907 million yen.

(iii) In South Korea, net sales were 1,607 million yen, up 36.4 % year on year. Operating income was 128 million yen.

With the application of the Accounting Standard for Business Combinations (Accounting Standards Board of Japan Statement No. 21; September 13, 2013) etc., from the consolidated fiscal year under review, Net income is presented as Net income attributable to owners of parent.

#### (2) Cash flows

For cash flows, please refer to (2) Analysis of cash flows of 7. Analysis of financial position and operating results of Section 2. Business Situation.

## 2. Production, orders received, and sales

### (1) Production performance

The table below shows production performance by segment for the fiscal year under review.

| Business segment | Consolidated fiscal year under review<br>(from April 1, 2015 to March 31, 2016)<br>(million yen) | Year on year (%) |
|------------------|--|------------------|
| Japan            | 28,768   | 104.1            |
| China            | 16,892   | 58.8             |
| South Korea      | --   | --               |
| Total            | 45,661   | 81.0             |

(Note) 1. The amounts above are amounts before intra-Group transfers based on standard invoice prices.

2. The amounts above do not include consumption taxes.
3. In South Korea, the Group does not engage in production.

### (2) Orders received

Since the Group (the Company and its consolidated subsidiaries) produces based on prospects for orders, a description of orders received is omitted.

### (3) Sales performance

The table below show sales performance by business segment for the fiscal year under review.

| Business segment | Consolidated fiscal year under review<br>(from April 1, 2015 to March 31, 2016)<br>(million yen) | Year on year (%) |
|------------------|--|------------------|
| Japan            | 24,965   | 105.1            |
| China            | 13,612   | 46.5             |
| South Korea      | 1,554  | 138.2            |
| Total            | 40,132   | 74.1             |

(Note) 1. Transactions between the segments were canceled out.

2. The amounts above do not include consumption taxes.

### 3. Challenges to address

(Challenges in the medium to long term)

The Group is addressing the following priority issues proactively as its medium- and long-term management strategies.

(1) Introduction of new products targeting growth fields

The Group will make every effort to launch new products that will sufficiently meet customers' requests in markets that are expected to grow, including the auto parts market, where eco-friendliness and energy saving are required, the IT market, which includes more sophisticated HDDs and smartphones, and the medical care market.

(2) Business strategies targeting growth regions

The Group will continue its efforts to build up production, sales and after-sales service organizations in Asian markets (including China, Southeast Asia and India), which we continue to need to emphasize.

(3) Management streamlining and customer satisfaction enhancement

To bolster the comprehensive strength of the corporate group, the Group, including affiliates, will seek to enhance its sales, production, and management systems and to achieve efficient management.

The Group will continue to make every effort to offer new products that satisfy customer demands, to expand and upgrade its services, to improve customer satisfaction on a constant basis, and to maintain the trust of its customers.

Meanwhile, the Group will promote CSR activities, including environment conservation and compliance, and remains committed to justifying the trust of its shareholders, customers, and all other stakeholders.

#### 4. Business and other risks

Risks that may adversely affect the operating results, share prices, financial situation and other aspects of the Group include the following:

##### (1) Effects of business fluctuations

The machine tool industry is an industry that is susceptible to the effects of business fluctuations. The Group is continuing its efforts to minimize the effects that unexpected market downsizing can have on its performance, by reducing fixed costs and taking other steps in an attempt to maximize management efficiency. Sudden and unexpected changes, however, may affect the Group's production, business performance and financial situation.

##### (2) Effects of changes in prices of raw materials

The prices of cast metals and iron and steel products, the main raw materials of products of the Group, are influenced by movements of exchange rates and the international supply-demand situation. Increases in prices of raw materials for those reasons may affect the Group's production, business performance, and financial situation.

##### (3) Effects of fluctuations in exchange rates

Each year, overseas sales are accounting for a greater percentage of total sales of the Group's products. Exports by the Group are denominated in yen, and they are not directly influenced by exchange rate fluctuations in principle. A sharp appreciation of the yen, however, prompts agents and users overseas to ask the Group to lower its selling prices for its products. In addition, the risk of an exchange loss attributable to fluctuations in the Chinese yuan is rising in proportion to the growing weight of production at manufacturing factories in China.

##### (4) Effects of overseas operations

Subsidiaries in China and India manufactures and sells machine tools, and the Group sells products and provides after-the-sale services through subsidiaries in South Korea, India, Thailand, Germany and others. Deterioration in political situations and changes in laws and regulations in those countries may affect the Group's production, business performance and financial standing.

##### (5) Effects of matters relating to quality

The Group is united in its commitment to improving quality, in addition to proactively developing new products and introducing them to markets. Nonetheless, unexpected issues, such as accidents and poor service, may affect the Group's production, business performance and financial conditions should they arise.

##### (6) Effects relating to intellectual property rights

To protect its technologies, the Group applies for patents for them and acquires intellectual property rights. However, if other companies infringe on the intellectual property rights of the Group, if the invalidation of intellectual property rights of the Group is sought, or if injunctions against the manufacture and sale of products are filed against the Group in association with infringements of intellectual property rights, then this may affect the Group's production, business performance and financial conditions.

##### (7) Effects of the situation

The Group deals with range of industries, including the electronics, information and telecommunications, and automobile industries. The Group pays close attention to the environment and credit risk. However, if the situation of customer, especially those with which the Group conducts large transactions, changes because of amendments to contracts, changes in the business environment, business downturns, or other factors, this may could the Group's production, business performance, and financial situation.

##### (8) Effects of natural disasters

The Group has production, selling, and service bases worldwide, and may therefore be affected by disasters that might be caused by a range of phenomena, including natural disasters, computer viruses, and terrorism.

The Group has production bases in Niigata and in China. If large natural disasters, such as earthquakes and floods, should occur, and if as a result the supply of products should become impossible or be delayed, then this may affect the Group's production, business performance and financial situation.

## 5. Significant management contracts

Not applicable.

## 6. Research and development activities

The Group is focusing on product development activities to quickly meet the needs of customers and develop high-precision, high-speed and high-rigidity machines promptly based on precision processing technologies that the Group has cultivated in product development and technology development for many years.

Total R&D expenses in the entire Group in the fiscal year under review were 1,187 million yen.

The R&D are conducted in the Company (Japan).

The Company plays a central role in developing small, high-speed, high-precision machines that can be used for processing auto parts that are environmentally friendly, safe, and energy saving (electric power steering, next-generation brakes, environmentally-friendly engines) and high-precision products in the information and communications industries, especially personal computer-related products, such as hard disk drives (HDDs), parts for small information terminals, such as mobile phones and digital cameras, and super high-precision parts such as parts for medical equipment.

During the fiscal year under review, the Company developed the M06/08J-II, M06/08D-II, M06/08SD-II and M06/08SY-II CNC lathe, the BW209Z CNC precision automatic lathe and the TMA8JC and TMA8F turning center.

## 7. Analysis of financial position, operating results, and cash flows

With the application of the Accounting Standard for Business Combinations (Accounting Standards Board of Japan Statement No. 21; September 13, 2013) etc., from the consolidated fiscal year under review, Net income is presented as Net income attributable to owners of parent.

### (1) Analysis relating to the consolidated financial position

#### (Current assets)

Current assets at the end of the fiscal year under review decreased 6,221 million yen, to 30,639 million yen, primarily reflecting a decreases of, 1,191 million yen in trade notes and accounts receivable, 4,400 million yen in inventories and 430 million yen in cash and deposit.

#### (Non-current assets)

Non-current assets at the end of the fiscal year under review decreased 2,747 million yen, to 17,219 million yen, primarily reflecting a decreases of, 771 million yen in buildings and structures, 624 million yen in machinery, equipment and vehicles and 1,168 million yen in investment securities.

#### (Current liabilities)

Current liabilities at the end of the fiscal year under review decreased 3,868 million yen, to 13,983 million yen, primarily reflecting a decreases of, 2,418 million yen in trade notes and accounts payable and 727 million yen in short-term loans payable.

#### (Non-current liabilities)

Non-current liabilities at the end of the fiscal year under review decreased 416 million yen, to 1,281 million yen primarily because of an increase in net defined benefit liability of 167 million yen which offset decrease in deferred tax liabilities of 573 million yen.

#### (Net assets)

Net assets at the end of the fiscal year under review decreased 4,684 million yen, to 32,594 million yen, primarily reflecting an increase of 877 million yen in net income attributable to owners of parent which offset a decreases of 1,018 million yen in valuation difference on available-for-sale securities, 1,131 million yen fall in foreign currency translation adjustment, 1,092 million yen in dividends paid and 2,238 million yen in treasury stock.

### (2) Analysis of cash flows

#### (Cash flows)

Cash and cash equivalents declined by 362 million yen from the end of the previous fiscal year, to 4,589 million yen at the end of the consolidated fiscal year under review. The following shows cash flows in each category in the fiscal year under review.

#### (Cash flows from operating activities)

Cash provided by operating activities was 4,226 million yen. (provided 3,135 million yen previous year)

The result principally reflected increases in cash, including a net income before taxes and other adjustments of 1,190 million yen, depreciation and amortization of 1,092 million yen, 940 million yen decrease in trade notes and accounts receivable and 2,890 million yen decrease in inventories, which offset decreases in cash, such as a 1,765 million yen decrease in trade notes and accounts payable and 987 million yen in corporate and other taxes paid.

#### (Cash flows from investing activities)

Cash used for investing activities was 959 million yen. (used 1,706 million yen previous year)

The cash outflow was primarily attributable to decrease in cash that resulted from a 449 million yen outlay for the purchase of property, plant and equipment, 301 million yen for the purchase of investment securities and 333 million yen for the payments of long-term loans to Indian production subsidiary.

#### (Cash flows from financing activities)

Cash used for financing activities was 3,520 million yen. (used 2,822 million yen previous year)

The cash outflow resulted from mainly from decreases in cash, decrease in short-term loans payable of 212 million yen, 2,241 million yen spent on the purchase of treasury stock and dividends paid of 1,092 million yen.

### (3) Analysis relating to consolidated operating results

Net sales in the fiscal year under review stood at 40,132 million yen, (down 25.9% year on year). Operating income was 2,125 million yen (down 70.7% year on year). A net income attributable to owners of parent was 877 million yen (down 83.4% year on year).

For analysis by business segment, please refer to (1) Operating results of 1. Overview of operating results of Section 2. Business Situation.

### Section 3. Facilities

#### 1. Overview of capital investment

Capital expenditures of the Group were 595 million yen.

Capital expenditures by business segment are as follows:

Capital expenditures in Japan were 130 million yen, which was allocated primarily to production facilities at Nagaoka factory of the Company.

Capital expenditures in China were 417 million yen, which was allocated primarily to production facilities at PRECISION TSUGAMI (CHINA) CORPORATION, a subsidiary.

Capital expenditures in South Korea were 48 million yen, which was allocated primarily to facilities at TSUGAMI KOREA Co., Ltd., a subsidiary.

The Group's own funds for the capital expenditures.

#### 2. Major facilities

The table below shows major facilities of the Group.

##### (1) Submitting company

As of March 31, 2016

| Factory (location)                                 | Business segment | Facilities                            | Book value (million yen) |                         |                        |               |       |       | Number of employees |
|--|------------------|---------------------------------------|--------------------------|-------------------------|------------------------|---------------|-------|-------|---------------------|
|  |                  |                                       | Buildings                | Machinery and equipment | Land (m <sup>2</sup> ) | Leased assets | Other | Total |                     |
| Nagaoka factory (Nagaoka-shi, Niigata)             | Japan            | Equipment for producing machine tools | 1,585                    | 329                     | 219 (71,303)           | 19            | 166   | 2,320 | 350 (77)            |
| Niigata factory (Higashi-ku, Niigata-shi, Niigata) | Japan            | Equipment for producing machine tools | 275                      | 11                      | 164 (18,245)           | --            | 15    | 467   | 20 (10)             |

##### (2) Overseas subsidiary

As of March 31, 2016

| Corporate name                                    | Factory (location)              | Business segment | Facilities                            | Book value (million yen) |                         |                        |               |       |       | Number of employees |
|---|---------------------------------|------------------|---------------------------------------|--------------------------|-------------------------|------------------------|---------------|-------|-------|---------------------|
|   |                                 |                  |                                       | Buildings                | Machinery and equipment | Land (m <sup>2</sup> ) | Leased assets | Other | Total |                     |
| PRECISION TSUGAMI (CHINA) CORPORATION             | China factory (Zhejiang, China) | China            | Equipment for producing machine tools | 2,625                    | 3,097                   | --                     | --            | 79    | 5,801 | 1,051 (--)          |
| Shinagawa Precision Machinery (Zhejiang) Co., Ltd | China factory (Zhejiang, China) | China            | Equipment for producing machine tools | 399                      | 126                     | --                     | --            | 21    | 547   | 59 (--)             |

(Note) 1. The book value in the "Other" column is a total value of tools, and equipment and fixtures and does not include construction in progress.

2. The number in parentheses in the number of employee's column is the number of temporary employees.

3. Main equipment that is out of service or made available for leasing is as follows:

As of March 31, 2016

| Factory (location)                 | Business segment | Facilities           | Book value (million yen) |                         |                        |               |       |       | Number of employees |
|------------------------------------|------------------|----------------------|--------------------------|-------------------------|------------------------|---------------|-------|-------|---------------------|
|                                    |                  |                      | Buildings                | Machinery and equipment | Land (m <sup>2</sup> ) | Leased assets | Other | Total |                     |
| Shinshu factory (Saku-shi, Nagano) | Japan            | Idle asset           | 348                      | 4                       | 11 (32,075)            | --            | 9     | 373   | -- (--)             |
|                                    |                  | Real estate for rent | 87                       | 0                       | 11 (32,610)            | --            | 1     | 99    |                     |

### 3. Equipment introduction and retirement plans

The Group develops capital expenditure plans, taking into comprehensive consideration business forecasts, industry trends, and financial efficiency.

In principle, each consolidated company develops an equipment plan, which is adjusted primarily by the submitting company.

The table below shows plans for the introduction of important equipment as of the end of the fiscal year under review.

| Corporate name,<br>factory                     | Location                | Business<br>segment | Facilities                                  | Planned investments<br>(million yen) |                | Financing<br>method | Planned start and<br>completion date |            |
|--|-------------------------|---------------------|---|--------------------------------------|----------------|---------------------|--------------------------------------|------------|
|  |                         |                     |   | Total                                | Amount<br>paid |                     | Start                                | Completion |
| Nagaoka factory<br>of the Company              | Nagaoka-shi,<br>Niigata | Japan               | Machinery<br>and<br>equipment               | 160                                  | --             | Self-financing      | April 2016                           | March 2017 |
| PRECISION<br>TSUGAMI<br>(CHINA)<br>CORPORATION | Zhejiang,<br>China      | China               | Buildings,<br>machinery<br>and<br>equipment | 200                                  | --             | Self-financing      | April 2016                           | March 2017 |



## Section 4. Situation of Submitting Company

### 1. Shares of the Company

#### (1) Total number of shares and other information

##### (i) Total number of shares

| Type         | Number of shares issuable |
|--------------|---------------------------|
| Common stock | 320,000,000               |
| Total        | 320,000,000               |

##### (ii) Shares issued

| Type         | Number of shares issued at end of fiscal year (March 31, 2016) | Number of shares issued on the date of the submission of the report (June 23, 2016) | Stock exchange or registered financial instruments dealers association | Remarks                          |
|--------------|--|---|--|----------------------------------|
| Common stock | 74,919,379   | 74,919,379  | The First Section of the Tokyo Stock Exchange                          | Number of shares per unit: 1,000 |
| Total        | 74,919,379   | 74,919,379  | --   | --                               |

(Note) The figures in the number of shares issued on the date of the submission of the report column do not include shares issued through the exercise of subscription rights to shares from June 1, 2016 through the date of the submission of the report.

(2) Subscription rights to shares

The table below shows the details of the subscription rights to shares issued under Articles 280-20 and 280-21 of the Old Commercial Code.

(i) Resolution of the annual shareholders meeting held on June 24, 2005

|   | At end of fiscal year under review<br>(March 31, 2016)   | At end of month preceding date of<br>submission of the report<br>(May 31, 2016) |
|---|--|---|
| Number of subscription rights to shares   | 59   | 59  |
| Number of own subscription rights to shares of the<br>subscription rights to shares   | --   | --  |
| Type of shares underlying subscription rights to shares   | Common stock   | Same as at left   |
| Number of shares underlying subscription rights to<br>shares  | 59,000   | 59,000  |
| Amount to be paid for the exercise of subscription rights<br>to shares (yen)  | 1  | Same as at left   |
| Exercise period   | From July 1, 2005 to June 30,<br>2025  | Same as at left   |
| Issue price and amount per share to be credited to capital<br>when shares are issued through the exercise of<br>subscription rights to shares (yen) | Issue price: 1<br>Amount per share to be<br>credited to capital: 1   | Same as at left   |
| Conditions for the exercise of subscription rights to<br>shares   | (Note 1)   | Same as at left   |
| Matters relating to the transfer of subscription rights to<br>shares  | The approval of the Board of<br>Directors is required for the<br>transfer of subscription rights to<br>shares. | Same as at left   |
| Matters relating to subrogation payments  | --   | --  |
| Matters relating to the delivery of subscription rights to<br>shares in association with reorganization acts  | --   | --  |

The table below shows the details of the subscription rights to shares issued under the Companies Act.

(ii) Resolution at a Board of Directors meeting held on June 23, 2006

|   | At end of fiscal year under review<br>(March 31, 2016)   | At end of month preceding date of<br>submission of the report<br>(May 31, 2016) |
|---|--|---|
| Number of subscription rights to shares   | 22   | 22  |
| Number of own subscription rights to shares of the<br>subscription rights to shares   | --   | --  |
| Type of shares underlying subscription rights to shares   | Common stock   | Same as at left   |
| Number of shares underlying subscription rights to<br>shares  | 22,000   | 22,000  |
| Amount to be paid for the exercise of subscription rights<br>to shares (yen)  | 1  | Same as at left   |
| Exercise period   | From July 21, 2006 to July 20,<br>2026   | Same as at left   |
| Issue price and amount per share to be credited to capital<br>when shares are issued through the exercise of<br>subscription rights to shares (yen) | Issue price: 609<br>Amount per share to be<br>credited to capital: 305   | Same as at left   |
| Conditions for the exercise of subscription rights to<br>shares   | (Note 1)   | Same as at left   |
| Matters relating to the transfer of subscription rights to<br>shares  | The approval of the Board of<br>Directors is required for the<br>transfer of subscription rights to<br>shares. | Same as at left   |
| Matters relating to subrogation payments  | --   | --  |
| Matters relating to the delivery of subscription rights to<br>shares in association with reorganization acts  | (Note 2)   | Same as at left   |

(iii) Resolution of the annual shareholders meeting held on June 23, 2006

|   | At end of fiscal year under review<br>(March 31, 2016)   | At end of month preceding date of<br>submission of the report<br>(May 31, 2016) |
|---|--|---|
| Number of subscription rights to shares   | 19   | 19  |
| Number of own subscription rights to shares of the<br>subscription rights to shares   | --   | --  |
| Type of shares underlying subscription rights to shares   | Common stock   | Same as at left   |
| Number of shares underlying subscription rights to<br>shares  | 19,000   | 19,000  |
| Amount to be paid for the exercise of subscription rights<br>to shares (yen)  | 1  | Same as at left   |
| Exercise period   | From July 21, 2006 to July 20,<br>2026   | Same as at left   |
| Issue price and amount per share to be credited to capital<br>when shares are issued through the exercise of<br>subscription rights to shares (yen) | Issue price: 609<br>Amount per share to be<br>credited to capital: 305   | Same as at left   |
| Conditions for the exercise of subscription rights to<br>shares   | (Note 1)   | Same as at left   |
| Matters relating to the transfer of subscription rights to<br>shares  | The approval of the Board of<br>Directors is required for the<br>transfer of subscription rights to<br>shares. | Same as at left   |
| Matters relating to subrogation payments  | --   | --  |
| Matters relating to the delivery of subscription rights<br>to shares in association with reorganization acts  | (Note 2)   | Same as at left   |

(iv) Resolution at a Board of Directors meeting held on June 22, 2007

|   | At end of fiscal year under review<br>(March 31, 2016)   | At end of month preceding date of<br>submission of the report<br>(May 31, 2016) |
|---|--|---|
| Number of subscription rights to shares   | 29   | 29  |
| Number of own subscription rights to shares of the<br>subscription rights to shares   | --   | --  |
| Type of shares underlying subscription rights to shares   | Common stock   | Same as at left   |
| Number of shares underlying subscription rights to<br>shares  | 29,000   | 29,000  |
| Amount to be paid for the exercise of subscription rights<br>to shares (yen)  | 1  | Same as at left   |
| Exercise period   | From July 10, 2007 to July 9,<br>2027  | Same as at left   |
| Issue price and amount per share to be credited to capital<br>when shares are issued through the exercise of<br>subscription rights to shares (yen) | Issue price: 514<br>Amount per share to be<br>credited to capital: 257   | Same as at left   |
| Conditions for the exercise of subscription rights to<br>shares   | (Note 1)   | Same as at left   |
| Matters relating to the transfer of subscription rights to<br>shares  | The approval of the Board of<br>Directors is required for the<br>transfer of subscription rights to<br>shares. | Same as at left   |
| Matters relating to subrogation payments  | --   | --  |
| Matters relating to the delivery of subscription rights<br>to shares in association with reorganization acts  | (Note 2)   | Same as at left   |

(v) Resolution of the annual shareholders meeting held on June 22, 2007

|  | At end of fiscal year under review<br>(March 31, 2016)  | At end of month preceding date of<br>submission of the report<br>(May 31, 2016) |
|--|---|---|
| Number of subscription right to shares   | 36  | 30  |
| Number of own subscription right to shares of the<br>subscription right to shares  | --  | --  |
| Type of shares underlying subscription right to shares   | Common stock  | Same as at left   |
| Number of shares underlying subscription right to shares   | 36,000  | 30,000  |
| Amount to be paid for the exercise of subscription right<br>to shares (yen)  | 1   | Same as at left   |
| Exercise period  | From July 10, 2007 to July 9,<br>2027   | Same as at left   |
| Issue price and amount per share to be credited to capital<br>when shares are issued through the exercise of<br>subscription right to shares (yen) | Issue price: 514<br>Amount per share to be<br>credited to capital: 257  | Same as at left   |
| Conditions for the exercise of subscription right to shares  | (Note 1)  | Same as at left   |
| Matters relating to the transfer of subscription right to<br>shares  | The approval of the Board of<br>Directors is required for the<br>transfer of subscription right to<br>shares. | Same as at left   |
| Matters relating to subrogation payments   | --  | --  |
| Matters relating to the delivery of subscription right to<br>shares in association with reorganization acts  | (Note 2)  | Same as at left   |

(vi) Resolution at a Board of Directors meeting held on June 20, 2008

|  | At end of fiscal year under review<br>(March 31, 2016)  | At end of month preceding date of<br>submission of the report<br>(May 31, 2016) |
|--|---|---|
| Number of subscription right to shares   | 37  | 37  |
| Number of own subscription right to shares of the<br>subscription right to shares  | --  | --  |
| Type of shares underlying subscription right to shares   | Common stock  | Same as at left   |
| Number of shares underlying subscription right to shares   | 37,000  | 37,000  |
| Amount to be paid for the exercise of subscription right<br>to shares (yen)  | 1   | Same as at left   |
| Exercise period  | From July 8, 2008 to July 7, 2028   | Same as at left   |
| Issue price and amount per share to be credited to capital<br>when shares are issued through the exercise of<br>subscription right to shares (yen) | Issue price: 280<br>Amount per share to be<br>credited to capital: 140  | Same as at left   |
| Conditions for the exercise of subscription right to shares  | (Note 1)  | Same as at left   |
| Matters relating to the transfer of subscription right to<br>shares  | The approval of the Board of<br>Directors is required for the<br>transfer of subscription right to<br>shares. | Same as at left   |
| Matters relating to subrogation payments   | --  | --  |
| Matters relating to the delivery of subscription right to<br>shares in association with reorganization acts  | (Note 2)  | Same as at left   |

(vii) Resolution of the annual shareholders meeting held on June 20, 2008

|  | At end of fiscal year under review<br>(March 31, 2016)  | At end of month preceding date of<br>submission of the report<br>(May 31, 2016) |
|--|---|---|
| Number of subscription right to shares   | 20  | 15  |
| Number of own subscription right to shares of the<br>subscription right to shares  | --  | --  |
| Type of shares underlying subscription right to shares   | Common stock  | Same as at left   |
| Number of shares underlying subscription right to shares   | 20,000  | 15,000  |
| Amount to be paid for the exercise of subscription right<br>to shares (yen)  | 1   | Same as at left   |
| Exercise period  | From July 8, 2008 to July 7, 2028   | Same as at left   |
| Issue price and amount per share to be credited to capital<br>when shares are issued through the exercise of<br>subscription right to shares (yen) | Issue price: 280<br>Amount per share to be<br>credited to capital: 140  | Same as at left   |
| Conditions for the exercise of subscription right to shares  | (Note 1)  | Same as at left   |
| Matters relating to the transfer of subscription right to<br>shares  | The approval of the Board of<br>Directors is required for the<br>transfer of subscription right to<br>shares. | Same as at left   |
| Matters relating to subrogation payments   | --  | --  |
| Matters relating to the delivery of subscription right to<br>shares in association with reorganization acts  | (Note 2)  | Same as at left   |

(viii) Resolution at a Board of Directors meeting held on June 19, 2009

|  | At end of fiscal year under review<br>(March 31, 2016)  | At end of month preceding date of<br>submission of the report<br>(May 31, 2016) |
|--|---|---|
| Number of subscription right to shares   | 93  | 93  |
| Number of own subscription right to shares of the<br>subscription right to shares  | --  | --  |
| Type of shares underlying subscription right to shares   | Common stock  | Same as at left   |
| Number of shares underlying subscription right to shares   | 93,000  | 93,000  |
| Amount to be paid for the exercise of subscription right<br>to shares (yen)  | 1   | Same as at left   |
| Exercise period  | From July 7, 2009 to July 6, 2029   | Same as at left   |
| Issue price and amount per share to be credited to capital<br>when shares are issued through the exercise of<br>subscription right to shares (yen) | Issue price: 124<br>Amount per share to be<br>credited to capital: 62   | Same as at left   |
| Conditions for the exercise of subscription right to shares  | (Note 1)  | Same as at left   |
| Matters relating to the transfer of subscription right to<br>shares  | The approval of the Board of<br>Directors is required for the<br>transfer of subscription right to<br>shares. | Same as at left   |
| Matters relating to subrogation payments   | --  | --  |
| Matters relating to the delivery of subscription right to<br>shares in association with reorganization acts  | --  | --  |

(ix) Resolution of the annual shareholders meeting held on June 19, 2009

|  | At end of fiscal year under review<br>(March 31, 2016)  | At end of month preceding date of<br>submission of the report<br>(May 31, 2016) |
|--|---|---|
| Number of subscription right to shares   | 60  | 48  |
| Number of own subscription right to shares of the<br>subscription right to shares  | --  | --  |
| Type of shares underlying subscription right to shares   | Common stock  | Same as at left   |
| Number of shares underlying subscription right to shares   | 60,000  | 48,000  |
| Amount to be paid for the exercise of subscription right<br>to shares (yen)  | 1   | Same as at left   |
| Exercise period  | From July 7, 2009 to July 6, 2029   | Same as at left   |
| Issue price and amount per share to be credited to capital<br>when shares are issued through the exercise of<br>subscription right to shares (yen) | Issue price: 124<br>Amount per share to be<br>credited to capital: 62   | Same as at left   |
| Conditions for the exercise of subscription right to shares  | (Note 1)  | Same as at left   |
| Matters relating to the transfer of subscription right to<br>shares  | The approval of the Board of<br>Directors is required for the<br>transfer of subscription right to<br>shares. | Same as at left   |
| Matters relating to subrogation payments   | --  | --  |
| Matters relating to the delivery of subscription right to<br>shares in association with reorganization acts  | --  | --  |

(x) Resolution at a Board of Directors meeting held on June 18, 2010

|  | At end of fiscal year under review<br>(March 31, 2016)  | At end of month preceding date of<br>submission of the report<br>(May 31, 2016) |
|--|---|---|
| Number of subscription right to shares   | 58  | 58  |
| Number of own subscription right to shares of the<br>subscription right to shares  | --  | --  |
| Type of shares underlying subscription right to shares   | Common stock  | Same as at left   |
| Number of shares underlying subscription right to shares   | 58,000  | 58,000  |
| Amount to be paid for the exercise of subscription right<br>to shares (yen)  | 1   | Same as at left   |
| Exercise period  | From July 6, 2010 to July 5, 2030   | Same as at left   |
| Issue price and amount per share to be credited to capital<br>when shares are issued through the exercise of<br>subscription right to shares (yen) | Issue price: 533<br>Amount per share to be<br>credited to capital: 267  | Same as at left   |
| Conditions for the exercise of subscription right to shares  | (Note 1)  | Same as at left   |
| Matters relating to the transfer of subscription right to<br>shares  | The approval of the Board of<br>Directors is required for the<br>transfer of subscription right to<br>shares. | Same as at left   |
| Matters relating to subrogation payments   | --  | --  |
| Matters relating to the delivery of subscription right to<br>shares in association with reorganization acts  | --  | --  |

(xi) Resolution of the annual shareholders meeting held on June 18, 2010

|  | At end of fiscal year under review<br>(March 31, 2016)  | At end of month preceding date of<br>submission of the report<br>(May 31, 2016) |
|--|---|---|
| Number of subscription right to shares   | 33  | 25  |
| Number of own subscription right to shares of the<br>subscription right to shares  | --  | --  |
| Type of shares underlying subscription right to shares   | Common stock  | Same as at left   |
| Number of shares underlying subscription right to shares   | 33,000  | 25,000  |
| Amount to be paid for the exercise of subscription right<br>to shares (yen)  | 1   | Same as at left   |
| Exercise period  | From July 6, 2010 to July 5, 2030   | Same as at left   |
| Issue price and amount per share to be credited to capital<br>when shares are issued through the exercise of<br>subscription right to shares (yen) | Issue price: 533<br>Amount per share to be<br>credited to capital: 267  | Same as at left   |
| Conditions for the exercise of subscription right to shares  | (Note 1)  | Same as at left   |
| Matters relating to the transfer of subscription right to<br>shares  | The approval of the Board of<br>Directors is required for the<br>transfer of subscription right to<br>shares. | Same as at left   |
| Matters relating to subrogation payments   | --  | --  |
| Matters relating to the delivery of subscription right to<br>shares in association with reorganization acts  | --  | --  |

(xii) Resolution of the annual shareholders meeting held on June 17, 2011

|  | At end of fiscal year under review<br>(March 31, 2016)  | At end of month preceding date of<br>submission of the report<br>(May 31, 2016) |
|--|---|---|
| Number of subscription right to shares   | 218   | 218   |
| Number of own subscription right to shares of the<br>subscription right to shares  | --  | --  |
| Type of shares underlying subscription right to shares   | Common stock  | Same as at left   |
| Number of shares underlying subscription right to shares   | 218,000   | 218,000   |
| Amount to be paid for the exercise of subscription right<br>to shares (yen)  | 481   | Same as at left   |
| Exercise period  | From July 5, 2013 to June30, 2016   | Same as at left   |
| Issue price and amount per share to be credited to capital<br>when shares are issued through the exercise of<br>subscription right to shares (yen) | Issue price: 644<br>Amount per share to be<br>credited to capital: 322  | Same as at left   |
| Conditions for the exercise of subscription right to shares  | (Note 1)  | Same as at left   |
| Matters relating to the transfer of subscription right to<br>shares  | The approval of the Board of<br>Directors is required for the<br>transfer of subscription right to<br>shares. | Same as at left   |
| Matters relating to subrogation payments   | --  | --  |
| Matters relating to the delivery of subscription right to<br>shares in association with reorganization acts  | --  | --  |

(xiii) Resolution at a Board of Directors meeting held on June 17, 2011

|  | At end of fiscal year under review<br>(March 31, 2016)  | At end of month preceding date of<br>submission of the report<br>(May 31, 2016) |
|--|---|---|
| Number of subscription right to shares   | 102   | 102   |
| Number of own subscription right to shares of the<br>subscription right to shares  | --  | --  |
| Type of shares underlying subscription right to shares   | Common stock  | Same as at left   |
| Number of shares underlying subscription right to shares   | 102,000   | 102,000   |
| Amount to be paid for the exercise of subscription right<br>to shares (yen)  | 1   | Same as at left   |
| Exercise period  | From July 5, 2011 to July 4, 2031   | Same as at left   |
| Issue price and amount per share to be credited to capital<br>when shares are issued through the exercise of<br>subscription right to shares (yen) | Issue price: 409<br>Amount per share to be<br>credited to capital: 205  | Same as at left   |
| Conditions for the exercise of subscription right to shares  | (Note 1)  | Same as at left   |
| Matters relating to the transfer of subscription right to<br>shares  | The approval of the Board of<br>Directors is required for the<br>transfer of subscription right to<br>shares. | Same as at left   |
| Matters relating to subrogation payments   | --  | --  |
| Matters relating to the delivery of subscription right to<br>shares in association with reorganization acts  | --  | --  |

(xiv) Resolution of the annual shareholders meeting held on June 17, 2011

|  | At end of fiscal year under review<br>(March 31, 2016)  | At end of month preceding date of<br>submission of the report<br>(May 31, 2016) |
|--|---|---|
| Number of subscription right to shares   | 66  | 54  |
| Number of own subscription right to shares of the<br>subscription right to shares  | --  | --  |
| Type of shares underlying subscription right to shares   | Common stock  | Same as at left   |
| Number of shares underlying subscription right to shares   | 66,000  | 54,000  |
| Amount to be paid for the exercise of subscription right<br>to shares (yen)  | 1   | Same as at left   |
| Exercise period  | From July 5, 2011 to July 4, 2031   | Same as at left   |
| Issue price and amount per share to be credited to capital<br>when shares are issued through the exercise of<br>subscription right to shares (yen) | Issue price: 409<br>Amount per share to be<br>credited to capital: 205  | Same as at left   |
| Conditions for the exercise of subscription right to shares  | (Note 1)  | Same as at left   |
| Matters relating to the transfer of subscription right to<br>shares  | The approval of the Board of<br>Directors is required for the<br>transfer of subscription right to<br>shares. | Same as at left   |
| Matters relating to subrogation payments   | --  | --  |
| Matters relating to the delivery of subscription right to<br>shares in association with reorganization acts  | --  | --  |



(xv) Resolution of the annual shareholders meeting held on June 15, 2012

|  | At end of fiscal year under review<br>(March 31, 2016)   | At end of month preceding date of<br>submission of the report<br>(May 31, 2016) |
|--|--|---|
| Number of subscription right to shares   | 152  | 152   |
| Number of own subscription right to shares of the<br>subscription right to shares  | --   | --  |
| Type of shares underlying subscription right to shares   | Common stock   | Same as at left   |
| Number of shares underlying subscription right to shares   | 152,000  | 152,000   |
| Amount to be paid for the exercise of subscription right to<br>shares (yen)  | 589  | Same as at left   |
| Exercise period  | From July 3, 2014 to June 30, 2017   | Same as at left   |
| Issue price and amount per share to be credited to capital<br>when shares are issued through the exercise of subscription<br>right to shares (yen) | Issue price: 785<br>Amount per share to be<br>credited to capital: 393                                     | Same as at left   |
| Conditions for the exercise of subscription right to shares  | (Note 1)   | Same as at left   |
| Matters relating to the transfer of subscription right to<br>shares  | The approval of the Board of<br>Directors is required for the transfer<br>of subscription right to shares. | Same as at left   |
| Matters relating to subrogation payments   | --   | --  |
| Matters relating to the delivery of subscription right to<br>shares in association with reorganization acts  | --   | --  |

(xvi) Resolution at a Board of Directors meeting held on June 15, 2012

|  | At end of fiscal year under review<br>(March 31, 2016)  | At end of month preceding date of<br>submission of the report<br>(May 31, 2016) |
|--|---|---|
| Number of subscription right to shares   | 115   | 115   |
| Number of own subscription right to shares of the<br>subscription right to shares  | --  | --  |
| Type of shares underlying subscription right to shares   | Common stock  | Same as at left   |
| Number of shares underlying subscription right to shares   | 115,000   | 115,000   |
| Amount to be paid for the exercise of subscription right<br>to shares (yen)  | 1   | Same as at left   |
| Exercise period  | From July 3, 2012 to July 2, 2032   | Same as at left   |
| Issue price and amount per share to be credited to capital<br>when shares are issued through the exercise of<br>subscription right to shares (yen) | Issue price: 460<br>Amount per share to be<br>credited to capital: 230  | Same as at left   |
| Conditions for the exercise of subscription right to shares  | (Note 1)  | Same as at left   |
| Matters relating to the transfer of subscription right to<br>shares  | The approval of the Board of<br>Directors is required for the<br>transfer of subscription right to<br>shares. | Same as at left   |
| Matters relating to subrogation payments   | --  | --  |
| Matters relating to the delivery of subscription right to<br>shares in association with reorganization acts  | --  | --  |

(xvii) Resolution of the annual shareholders meeting held on June 15, 2012

|  | At end of fiscal year under review<br>(March 31, 2016)  | At end of month preceding date of<br>submission of the report<br>(May 31, 2016) |
|--|---|---|
| Number of subscription right to shares   | 62  | 49  |
| Number of own subscription right to shares of the<br>subscription right to shares  | --  | --  |
| Type of shares underlying subscription right to shares   | Common stock  | Same as at left   |
| Number of shares underlying subscription right to shares   | 62,000  | 49,000  |
| Amount to be paid for the exercise of subscription right<br>to shares (yen)  | 1   | Same as at left   |
| Exercise period  | From July 3, 2012 to July 2, 2032   | Same as at left   |
| Issue price and amount per share to be credited to capital<br>when shares are issued through the exercise of<br>subscription right to shares (yen) | Issue price: 460<br>Amount per share to be<br>credited to capital: 230  | Same as at left   |
| Conditions for the exercise of subscription right to shares  | (Note 1)  | Same as at left   |
| Matters relating to the transfer of subscription right to<br>shares  | The approval of the Board of<br>Directors is required for the<br>transfer of subscription right to<br>shares. | Same as at left   |
| Matters relating to subrogation payments   | --  | --  |
| Matters relating to the delivery of subscription right to<br>shares in association with reorganization acts  | --  | --  |

(xviii) Resolution of the annual shareholders meeting held on June 21, 2013

|  | At end of fiscal year under review<br>(March 31, 2016)   | At end of month preceding date of<br>submission of the report<br>(May 31, 2016) |
|--|--|---|
| Number of subscription right to shares   | 200  | 200   |
| Number of own subscription right to shares of the<br>subscription right to shares  | --   | --  |
| Type of shares underlying subscription right to shares   | Common stock   | Same as at left   |
| Number of shares underlying subscription right to shares   | 200,000  | 200,000   |
| Amount to be paid for the exercise of subscription right to<br>shares (yen)  | 575  | Same as at left   |
| Exercise period  | From July 9, 2015 to June 30, 2018   | Same as at left   |
| Issue price and amount per share to be credited to capital<br>when shares are issued through the exercise of<br>subscription right to shares (yen) | Issue price: 755<br>Amount per share to be<br>credited to capital: 378                                     | Same as at left   |
| Conditions for the exercise of subscription right to shares  | (Note 1)   | Same as at left   |
| Matters relating to the transfer of subscription right to<br>shares  | The approval of the Board of<br>Directors is required for the transfer<br>of subscription right to shares. | Same as at left   |
| Matters relating to subrogation payments   | --   | --  |
| Matters relating to the delivery of subscription right to<br>shares in association with reorganization acts  | --   | --  |

(xix) Resolution at a Board of Directors meeting held on June 21, 2013

|  | At end of fiscal year under review<br>(March 31, 2016)  | At end of month preceding date of<br>submission of the report<br>(May 31, 2016) |
|--|---|---|
| Number of subscription right to shares   | 151   | 151   |
| Number of own subscription right to shares of the<br>subscription right to shares  | --  | --  |
| Type of shares underlying subscription right to shares   | Common stock  | Same as at left   |
| Number of shares underlying subscription right to shares   | 151,000   | 151,000   |
| Amount to be paid for the exercise of subscription right<br>to shares (yen)  | 1   | Same as at left   |
| Exercise period  | From July 9, 2013 to July 8, 2033   | Same as at left   |
| Issue price and amount per share to be credited to capital<br>when shares are issued through the exercise of<br>subscription right to shares (yen) | Issue price: 446<br>Amount per share to be<br>credited to capital: 223  | Same as at left   |
| Conditions for the exercise of subscription right to shares  | (Note 1)  | Same as at left   |
| Matters relating to the transfer of subscription right to<br>shares  | The approval of the Board of<br>Directors is required for the<br>transfer of subscription right to<br>shares. | Same as at left   |
| Matters relating to subrogation payments   | --  | --  |
| Matters relating to the delivery of subscription right to<br>shares in association with reorganization acts  | --  | --  |

(xx) Resolution of the annual shareholders meeting held on June 21, 2013

|  | At end of fiscal year under review<br>(March 31, 2016)  | At end of month preceding date of<br>submission of the report<br>(May 31, 2016) |
|--|---|---|
| Number of subscription right to shares   | 91  | 79  |
| Number of own subscription right to shares of the<br>subscription right to shares  | --  | --  |
| Type of shares underlying subscription right to shares   | Common stock  | Same as at left   |
| Number of shares underlying subscription right to shares   | 91,000  | 79,000  |
| Amount to be paid for the exercise of subscription right to<br>shares (yen)  | 1   | Same as at left   |
| Exercise period  | From July 9, 2013 to July 8, 2033   | Same as at left   |
| Issue price and amount per share to be credited to capital<br>when shares are issued through the exercise of<br>subscription right to shares (yen) | Issue price: 446<br>Amount per share to be<br>credited to capital: 223  | Same as at left   |
| Conditions for the exercise of subscription right to shares  | (Note 1)  | Same as at left   |
| Matters relating to the transfer of subscription right to<br>shares  | The approval of the Board of<br>Directors is required for the<br>transfer of subscription right to<br>shares. | Same as at left   |
| Matters relating to subrogation payments   | --  | --  |
| Matters relating to the delivery of subscription right to<br>shares in association with reorganization acts  | --  | --  |

(xxi) Resolution of the annual shareholders meeting held on June 20, 2014

|  | At end of fiscal year under review<br>(March 31, 2016)  | At end of month preceding date of<br>submission of the report<br>(May 31, 2016) |
|--|---|---|
| Number of subscription right to shares   | 200   | 200   |
| Number of own subscription right to shares of the<br>subscription right to shares  | --  | --  |
| Type of shares underlying subscription right to shares   | Common stock  | Same as at left   |
| Number of shares underlying subscription right to shares   | 200,000   | 200,000   |
| Amount to be paid for the exercise of subscription right<br>to shares (yen)  | 584   | Same as at left   |
| Exercise period  | From July 8, 2016 to June 30,<br>2019   | Same as at left   |
| Issue price and amount per share to be credited to capital<br>when shares are issued through the exercise of<br>subscription right to shares (yen) | Issue price: 750<br>Amount per share to be<br>credited to capital: 375  | Same as at left   |
| Conditions for the exercise of subscription right to shares  | (Note 1)  | Same as at left   |
| Matters relating to the transfer of subscription right to<br>shares  | The approval of the Board of<br>Directors is required for the<br>transfer of subscription right to<br>shares. | Same as at left   |
| Matters relating to subrogation payments   | --  | --  |
| Matters relating to the delivery of subscription right to<br>shares in association with reorganization acts  | --  | --  |

(xxii) Resolution at a Board of Directors meeting held on June 20, 2014

|  | At end of fiscal year under review<br>(March 31, 2016)   | At end of month preceding date of<br>submission of the report<br>(May 31, 2016) |
|--|--|---|
| Number of subscription right to shares   | 161  | 161   |
| Number of own subscription right to shares of the<br>subscription right to shares  | --   | --  |
| Type of shares underlying subscription right to shares   | Common stock   | Same as at left   |
| Number of shares underlying subscription right to shares   | 161,000  | 161,000   |
| Amount to be paid for the exercise of subscription right to<br>shares (yen)  | 1  | Same as at left   |
| Exercise period  | From July 8, 2014 to July 7, 2034  | Same as at left   |
| Issue price and amount per share to be credited to capital<br>when shares are issued through the exercise of<br>subscription right to shares (yen) | Issue price: 453<br>Amount per share to be<br>credited to capital: 227                                     | Same as at left   |
| Conditions for the exercise of subscription right to shares  | (Note 1)   | Same as at left   |
| Matters relating to the transfer of subscription right to<br>shares  | The approval of the Board of<br>Directors is required for the transfer<br>of subscription right to shares. | Same as at left   |
| Matters relating to subrogation payments   | --   | --  |
| Matters relating to the delivery of subscription right to<br>shares in association with reorganization acts  | --   | --  |

(xxiii) Resolution of the annual shareholders meeting held on June 20, 2014

|  | At end of fiscal year under review<br>(March 31, 2016)   | At end of month preceding date of<br>submission of the report<br>(May 31, 2016) |
|--|--|---|
| Number of subscription right to shares   | 86   | 71  |
| Number of own subscription right to shares of the<br>subscription right to shares  | --   | --  |
| Type of shares underlying subscription right to shares   | Common stock   | Same as at left   |
| Number of shares underlying subscription right to shares   | 86,000   | 71,000  |
| Amount to be paid for the exercise of subscription right to<br>shares (yen)  | 1  | Same as at left   |
| Exercise period  | From July 8, 2014 to July 7, 2034  | Same as at left   |
| Issue price and amount per share to be credited to capital<br>when shares are issued through the exercise of<br>subscription right to shares (yen) | Issue price: 453<br>Amount per share to be<br>credited to capital: 227                                     | Same as at left   |
| Conditions for the exercise of subscription right to shares  | (Note 1)   | Same as at left   |
| Matters relating to the transfer of subscription right to<br>shares  | The approval of the Board of<br>Directors is required for the transfer<br>of subscription right to shares. | Same as at left   |
| Matters relating to subrogation payments   | --   | --  |
| Matters relating to the delivery of subscription right to<br>shares in association with reorganization acts  | --   | --  |

(xxiv) Resolution at a Board of Directors meeting held on June 18, 2015

|  | At end of fiscal year under review<br>(March 31, 2016)   | At end of month preceding date of<br>submission of the report<br>(May 31, 2016) |
|--|--|---|
| Number of subscription right to shares   | 131  | 131   |
| Number of own subscription right to shares of the<br>subscription right to shares  | --   | --  |
| Type of shares underlying subscription right to shares   | Common stock   | Same as at left   |
| Number of shares underlying subscription right to shares   | 131,000  | 131,000   |
| Amount to be paid for the exercise of subscription right to<br>shares (yen)  | 1  | Same as at left   |
| Exercise period  | From July 7, 2015 to July 6, 2035  | Same as at left   |
| Issue price and amount per share to be credited to capital<br>when shares are issued through the exercise of<br>subscription right to shares (yen) | Issue price: 526<br>Amount per share to be<br>credited to capital: 263                                     | Same as at left   |
| Conditions for the exercise of subscription right to shares  | (Note 1)   | Same as at left   |
| Matters relating to the transfer of subscription right to<br>shares  | The approval of the Board of<br>Directors is required for the transfer<br>of subscription right to shares. | Same as at left   |
| Matters relating to subrogation payments   | --   | --  |
| Matters relating to the delivery of subscription right to<br>shares in association with reorganization acts  | --   | --  |

(xxv) Resolution of the annual shareholders meeting held on June 18, 2015

|  | At end of fiscal year under review<br>(March 31, 2016)   | At end of month preceding date of<br>submission of the report<br>(May 31, 2016) |
|--|--|---|
| Number of subscription right to shares   | 112  | 96  |
| Number of own subscription right to shares of the<br>subscription right to shares  | --   | --  |
| Type of shares underlying subscription right to shares   | Common stock   | Same as at left   |
| Number of shares underlying subscription right to shares   | 112,000  | 96,000  |
| Amount to be paid for the exercise of subscription right to<br>shares (yen)  | 1  | Same as at left   |
| Exercise period  | From July 7, 2015 to July 6, 2035  | Same as at left   |
| Issue price and amount per share to be credited to capital<br>when shares are issued through the exercise of<br>subscription right to shares (yen) | Issue price: 526<br>Amount per share to be<br>credited to capital: 263                                     | Same as at left   |
| Conditions for the exercise of subscription right to shares  | (Note 1)   | Same as at left   |
| Matters relating to the transfer of subscription right to<br>shares  | The approval of the Board of<br>Directors is required for the transfer<br>of subscription right to shares. | Same as at left   |
| Matters relating to subrogation payments   | --   | --  |
| Matters relating to the delivery of subscription right to<br>shares in association with reorganization acts  | --   | --  |

(Note) 1. The conditions for the exercise of subscription rights to shares shall be stipulated in a resolution of the Board of Directors, of the Company and the "Subscription Rights to Share Allocation Agreement" concluded between the Company and the recipients of subscription rights to shares, based on the resolution.

2. In the event of a stock swap or a stock transfer in which the Company will become a wholly owned subsidiary, obligations relating to subscription rights to shares that are not exercised or canceled shall be able to be transferred to the company that will become the parent company through the stock swap or stock transfer under certain conditions. Details shall be specified in the invitation to issuing of subscription.

(3) Exercise of bonds with subscription rights to shares with an amended exercise price  
 Not applicable.

(4) Features of rights plan  
 Not applicable.

(5) Changes in the number of shares outstanding and capital

| Date                       | Change in number of shares outstanding (shares) | Number of shares outstanding (shares) | Change in capital (million yen) | Capital (million yen) | Change in capital reserve (million yen) | Capital reserve (million yen) |
|----------------------------|---|---------------------------------------|---------------------------------|-----------------------|---|-------------------------------|
| February 1, 2012 (Note 1)  | 6,000,000                                       | 74,019,379                            | 1,518                           | 12,117                | 1,518                                   | 5,656                         |
| February 22, 2012 (Note 2) | 900,000   | 74,919,379                            | 227                             | 12,345                | 227                                     | 5,884                         |

(Note) 1. Public offering: 6,000 thousand shares  
 Issue price: 528 yen  
 Amount to be paid: 506 yen  
 Amount incorporated into capital: 253 yen

2. Private placement: 900 thousand shares  
 (Capital increase through a private placement related to a secondary offering by way of over-allotment)  
 Allotted to Nomura Securities Co., Ltd.  
 Issue price: 506 yen  
 Amount incorporated into capital: 253 yen

(6) Ownership of shares by owner

As of March 31, 2016

| Classification               | Ownership of shares (one unit is 1,000 shares) |                        |                      |                    |                                      |             |                        |        | Fractional shares (shares) |
|------------------------------|--|------------------------|----------------------|--------------------|--------------------------------------|-------------|------------------------|--------|----------------------------|
|                              | Government and local governments               | Financial institutions | Securities companies | Other corporations | Foreign corporations and individuals |             | Individuals and others | Total  |                            |
|                              |  |                        |                      |                    | Entities other than individuals      | Individuals |                        |        |                            |
| Number of shareholders       | --   | 37                     | 35                   | 133                | 126                                  | 7           | 7,438                  | 7,776  | --                         |
| Number of shares held (unit) | --   | 23,149                 | 1,872                | 6,320              | 12,948                               | 27          | 30,216                 | 74,532 | 387,379                    |
| Holdings (%)                 | --   | 31.1                   | 2.5                  | 8.5                | 17.4                                 | 0.0         | 40.5                   | 100.0  | --                         |

(Note) 1. Treasury stock (8,023,683 shares) includes 8,023 units in the individuals and others category and 683 fractional shares.  
 2. Shares in the other corporations' column include 12 units of shares under the name of the Japan Securities Depository Center.

(7) Major shareholders

As of March 31, 2016

| Name   | Address  | Number of shares held (thousand shares) | Ratio of holdings to the number of shares issued (%) |
|--|--|---|--|
| TSUGAMI CORPORATION  | 12-20, Tomizawa-cho, Nihonbashi, Chuo-ku, Tokyo  | 8,023                                   | 10.70  |
| Japan Trustee Services Bank, Ltd. (trust account)  | 1-8-11, Harumi, Chuo-ku, Tokyo   | 7,465                                   | 9.96   |
| The Master Trust Bank of Japan, Ltd. (Trust account)   | 2-11-3, Hamamatsu-cho, Minato-ku, Tokyo  | 3,709                                   | 4.95   |
| Mizuho Trust & Banking Co., Ltd. (employee retirement benefit trust of Tokyo Seimitsu Co., Ltd., new trust custodian: Trust & Custody Services Bank, Ltd.) | 1-8-12, Harumi, Chuo-ku, Tokyo   | 2,592                                   | 3.45   |
| The Dai-ichi Life Insurance Company, Limited (Standing agency: Trust & Custody Services Bank, Ltd.)  | 1-13-1, Yurakucho, Chiyoda-ku, Tokyo<br>(1-8-12, Harumi, Chuo-ku, Tokyo)                               | 2,104                                   | 2.80   |
| DMG MORI SEIKI Co., Ltd.   | 106, Kitakoriyama-cho, Yamatokoriyama-shi, Nara  | 2,000                                   | 2.66   |
| Sumitomo Mitsui Banking Corporation  | 1-1-2, Marunouchi, Chiyoda-ku, Tokyo   | 1,516                                   | 2.02   |
| The Hokuetsu Bank, Ltd.  | 2-2-14, Otedori, Nagaoka-shi, Niigata  | 1,484                                   | 1.98   |
| JP Morgan Chase Bank 385632 (Standing agency: Mizuho Corporate Bank, Ltd., Custody & Proxy Department)   | 25 Bank Street, Canary Wharf, London, E14 5JP, United Kingdom<br>(4-16-13, Tsukishima, Chuo-ku, Tokyo) | 1,422                                   | 1.89   |
| TSUGAMI Customers' Shareholding Association  | 1-1-1, Higashi-Zao, Nagaoka-shi, Niigata   | 1,259                                   | 1.68   |
| Total  | --   | 31,575                                  | 42.14  |

- (Note) 1. All shares held by Japan Trustee Services Bank, Ltd. relate to the trust service.  
 2. All shares held by The Master Trust Bank of Japan, Ltd. relate to the trust service.  
 3. All shares held by Mizuho Trust & Banking Co., Ltd. relate to the trust service.  
 4. The number of shares held by The Dai-ichi Life Insurance Company, Limited 4 thousand shares in separate pension accounts.  
 5. Although the statement of large-volume holdings that was made available for public inspection on January 21, 2016 states that Resona Bank, Limited holds the shares below as of January 15, 2016, the Company was not able to confirm the actual number of shares held as of March 31, 2016. Therefore, the shareholdings of Resona Bank are not included in the status of major shareholders above.

The statement of large-volume holdings states the following:

| Name                  | Address                                 | Number of shares and other securities (shares) | Holdings (%) |
|-----------------------|---|--|--------------|
| Resona Bank, Limited. | 2-1, Bingomachi 2-chome, Chuo-ku, Osaka | Shares 4,085,000                               | 5.45         |



(8) Voting rights

(i) Shares issued

As of March 31, 2016

| Classification                                      | Number of shares        | Number of voting rights | Remarks |
|---|-------------------------|-------------------------|---------|
| Nonvoting shares                                    | --                      | --                      | --      |
| Shares with limited voting rights (Treasury stock)  | --                      | --                      | --      |
| Shares with limited voting rights (other shares)    | --                      | --                      | --      |
| Shares with complete voting rights (Treasury stock) | Common stock 8,023,000  | --                      | --      |
| Shares with complete voting rights (other shares)   | Common stock 66,509,000 | 66,509                  | --      |
| Fractional shares                                   | Common stock 387,379    | --                      | --      |
| Total number of shares issued                       | 74,919,379              | --                      | --      |
| Number of voting rights of all shareholders         | --                      | 66,509                  | --      |

(Note) Shares with complete voting rights (other shares) include 12 thousand shares (12 voting rights) under the name of the Japan Securities Depository Center.

(ii) Treasury stock

As of March 31, 2016

| Owner               | Address of owner                               | Number of shares held under the owner's own name (shares) | Number of shares held under the name of any other person (shares) | Total number of shares held (shares) | Ratio of holdings to the number of shares issued (%) |
|---------------------|--|---|---|--------------------------------------|--|
| Tsugami Corporation | 12-20, Tomizawa-cho Nihonbashi, Chuo-ku, Tokyo | 8,023,000   | --  | 8,023,000                            | 10.7   |
| Total               | --   | 8,023,000   | --  | 8,023,000                            | 10.7   |

(9) Stock option system

The Company has a stock option system. In the system, the Company issues subscription right to shares under the Old Commercial Code and Companies Act.

The details of the system are as follows:

1. Stock options based on a resolution at the annual shareholders meeting held on June 24, 2005

A special resolution was passed at the 102nd annual shareholders meeting held on June 24, 2005 that subscription right to shares would be issued to the Company's directors, statutory auditors, and titled executive officers under Articles 280-20 and 280-21 of the Old Commercial Code.

|   |  |
|---|--|
| Date of relevant resolution   | June 24, 2005  |
| Positions and numbers of officers to receive stock options  | The Company's directors 4<br>Statutory auditors 4<br>Titled executive officers 7 |
| Type of shares underlying subscription right to shares  | Described in (2) Situation of subscription right to shares                       |
| Number of shares  | Ditto  |
| Amount to be paid for the exercise of subscription right to shares  | Ditto  |
| Exercise period   | Ditto  |
| Conditions for the exercise of subscription right to shares   | Ditto  |
| Matters relating to the transfer of subscription rights to shares   | Ditto  |
| Matters relating to subrogation payments  | --   |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | --   |

2. Stock options based on a resolution at the annual shareholders meeting held on June 23, 2006

A special resolution was passed at the 103rd annual shareholders meeting held on June 23, 2006 that the shareholders meeting would delegate to the Board of Directors the determination of subscription requirements for subscription rights to shares to be issued as stock compensation-type stock options to the Company's titled executive officers and employees with similar titles under particularly favorable conditions under the provisions of Articles 236, 238, and 239 of the Companies Act.

|   |   |
|---|---|
| Date of relevant resolution   | June 23, 2006   |
| Positions and numbers of officers to receive stock options  | Titled executive officers 8<br>Employees with similar positions 3 |
| Type of shares underlying subscription rights to shares   | Described in (2) Situation of subscription rights to shares       |
| Number of shares  | Ditto   |
| Amount to be paid for the exercise of subscription rights to shares                                       | Ditto   |
| Exercise period   | Ditto   |
| Conditions for the exercise of subscription rights to shares  | Ditto   |
| Matters relating to the transfer of subscription rights to shares   | Ditto   |
| Matters relating to subrogation payments  | --  |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | Described in (2) Situation of subscription rights to shares       |

3. Stock options based on a resolution at a Board of Directors meeting held on June 23, 2006

A meeting of the Board of Directors held on June 23, 2006 adopted a resolution on the determination of subscription requirements for subscription rights to shares to be issued as stock compensation-type stock options to the Company's directors and statutory auditors under Articles 238 and 240 of the Companies Act.

|   |   |
|---|---|
| Date of relevant resolution   | June 23, 2006   |
| Positions and numbers of officers to receive stock options  | The Company's directors 4<br>Statutory auditors 4           |
| Type of shares underlying subscription rights to shares   | Described in (2) Situation of subscription rights to shares |
| Number of shares  | Ditto   |
| Amount to be paid for the exercise of subscription rights to shares                                       | Ditto   |
| Exercise period   | Ditto   |
| Conditions for the exercise of subscription rights to shares  | Ditto   |
| Matters relating to the transfer of subscription rights to shares   | Ditto   |
| Matters relating to subrogation payments  | --  |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | Described in (2) Situation of subscription rights to shares |

4. Stock options based on a resolution at the annual shareholders meeting held on June 22, 2007

A special resolution was passed at the 104th annual shareholders meeting held on June 22, 2007 that the shareholders meeting would delegate to the Board of Directors the determination of subscription requirements for subscription rights to shares to be issued as stock compensation-type stock options to titled executive officers and employees with similar positions of the Company under particularly favorable conditions under the provisions of Articles 236, 238, and 239 of the Companies Act.

|   |   |
|---|---|
| Date of relevant resolution   | June 22, 2007   |
| Positions and numbers of officers to receive stock options  | Titled executive officers 11<br>Employee with similar positions 1 |
| Type of shares underlying subscription rights to shares   | Described in (2) Situation of subscription rights to shares       |
| Number of shares  | Ditto   |
| Amount to be paid for the exercise of subscription rights to shares                                       | Ditto   |
| Exercise period   | Ditto   |
| Conditions for the exercise of subscription rights to shares  | Ditto   |
| Matters relating to the transfer of subscription rights to shares   | Ditto   |
| Matters relating to subrogation payments  | --  |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | Described in (2) Situation of subscription rights to shares       |

5. Stock options based on a resolution at a Board of Directors meeting held on June 22, 2007

A meeting of the Board of Directors held on June 22, 2007 adopted a resolution on the determination of subscription requirements for subscription rights to shares to be issued as stock compensation-type stock options to the Company's directors and statutory auditors under Articles 238 and 240 of the Companies Act.

|   |   |
|---|---|
| Date of relevant resolution   | June 22, 2007   |
| Positions and numbers of officers to receive stock options  | The Company's directors 4<br>Statutory auditors 4           |
| Type of shares underlying subscription rights to shares   | Described in (2) Situation of subscription rights to shares |
| Number of shares  | Ditto   |
| Amount to be paid for the exercise of subscription rights to shares                                       | Ditto   |
| Exercise period   | Ditto   |
| Conditions for the exercise of subscription rights to shares  | Ditto   |
| Matters relating to the transfer of subscription rights to shares   | Ditto   |
| Matters relating to subrogation payments  | --  |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | Described in (2) Situation of subscription rights to shares |

6. Stock options based on a resolution at the annual shareholders meeting held on June 20, 2008

A special resolution was passed at the 105th annual shareholders meeting held on June 20, 2008 that the shareholders meeting would delegate to the Board of Directors the determination of subscription requirements for subscription rights to shares to be issued as stock compensation-type stock options to titled executive officers under particularly favorable conditions under the provisions of Articles 236, 238, and 239 of the Companies Act.

|   |   |
|---|---|
| Date of relevant resolution   | June 20, 2008   |
| Positions and numbers of officers to receive stock options  | Titled executive officers 18                                |
| Type of shares underlying subscription rights to shares   | Described in (2) Situation of subscription rights to shares |
| Number of shares  | Ditto   |
| Amount to be paid for the exercise of subscription rights to shares                                       | Ditto   |
| Exercise period   | Ditto   |
| Conditions for the exercise of subscription rights to shares  | Ditto   |
| Matters relating to the transfer of subscription rights to shares   | Ditto   |
| Matters relating to subrogation payments  | --  |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | Described in (2) Situation of subscription rights to shares |

7. Stock options based on a resolution at a Board of Directors meeting held on June 20, 2008

A meeting of the Board of Directors held on June 20, 2008 adopted a resolution on the determination of subscription requirements for subscription rights to shares to be issued as stock compensation-type stock options to the Company's directors and statutory auditors under Articles 238 and 240 of the Companies Act.

|   |   |
|---|---|
| Date of relevant resolution   | June 20, 2008   |
| Positions and numbers of officers to receive stock options  | The Company's directors 7<br>Statutory auditors 4           |
| Type of shares underlying subscription rights to shares   | Described in (2) Situation of subscription rights to shares |
| Number of shares  | Ditto   |
| Amount to be paid for the exercise of subscription rights to shares                                       | Ditto   |
| Exercise period   | Ditto   |
| Conditions for the exercise of subscription rights to shares  | Ditto   |
| Matters relating to the transfer of subscription rights to shares   | Ditto   |
| Matters relating to subrogation payments  | --  |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | Described in (2) Situation of subscription rights to shares |

8. Stock options based on a resolution at the annual shareholders meeting held on June 19, 2009

A special resolution was passed at the 106th annual shareholders meeting held on June 19, 2009 that the shareholders meeting would delegate to the Board of Directors the determination of subscription requirements for subscription rights to shares to be issued as stock compensation-type stock options to titled executive officers and employees with similar positions of the Company under particularly favorable conditions under the provisions of Articles 236, 238, and 239 of the Companies Act.

|   |   |
|---|---|
| Date of relevant resolution   | June 19, 2009   |
| Positions and numbers of officers to receive stock options  | Titled executive officers<br>and/or employees with similar positions 14 |
| Type of shares underlying subscription rights to shares   | Described in (2) Situation of subscription rights to shares             |
| Number of shares  | Ditto   |
| Amount to be paid for the exercise of subscription rights to shares                                       | Ditto   |
| Exercise period   | Ditto   |
| Conditions for the exercise of subscription rights to shares  | Ditto   |
| Matters relating to the transfer of subscription rights to shares   | Ditto   |
| Matters relating to subrogation payments  | --  |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | --  |

9. Stock options based on a resolution at a Board of Directors meeting held on June 19, 2009

A meeting of the Board of Directors held on June 19, 2009 adopted a resolution on the determination of subscription requirements for subscription rights to shares to be issued as stock compensation-type stock options to the Company's directors and statutory auditors under Articles 238 and 240 of the Companies Act.

|   |   |
|---|---|
| Date of relevant resolution   | June 19, 2009   |
| Positions and numbers of officers to receive stock options  | The Company's directors 7<br>Statutory auditors 4           |
| Type of shares underlying subscription rights to shares   | Described in (2) Situation of subscription rights to shares |
| Number of shares  | Ditto   |
| Amount to be paid for the exercise of subscription rights to shares                                       | Ditto   |
| Exercise period   | Ditto   |
| Conditions for the exercise of subscription rights to shares  | Ditto   |
| Matters relating to the transfer of subscription rights to shares   | Ditto   |
| Matters relating to subrogation payments  | --  |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | --  |

10. Stock options based on a resolution at the annual shareholders meeting held on June 18, 2010

(i) A special resolution was passed at the 107th annual shareholders meeting held on June 18, 2010 that the shareholders meeting would delegate to the Board of Directors the determination of subscription requirements for subscription rights to shares to be issued as stock options to employees of the Company and directors of subsidiaries of the Company under particularly favorable conditions under the provisions of Articles 236, 238, and 239 of the Companies Act.

|   |   |
|---|---|
| Date of relevant resolution   | June 18, 2010   |
| Positions and numbers of officers to receive stock options  | Employees of the Company 63<br>Directors of subsidiaries of the Company 7 |
| Type of shares underlying subscription rights to shares   | Described in (2) Situation of subscription rights to shares               |
| Number of shares  | Ditto   |
| Amount to be paid for the exercise of subscription rights to shares                                       | Ditto   |
| Exercise period   | Ditto   |
| Conditions for the exercise of subscription rights to shares  | Ditto   |
| Matters relating to the transfer of subscription rights to shares   | Ditto   |
| Matters relating to subrogation payments  | --  |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | --  |

(ii) A special resolution was passed at the 107th annual shareholders meeting held on June 18, 2010 that the shareholders meeting would delegate to the Board of Directors the determination of subscription requirements for subscription rights to shares to be issued as stock compensation-type stock options to titled executive officers and employees with similar positions of the Company under particularly favorable conditions under the provisions of Articles 236, 238, and 239 of the Companies Act.

|   |   |
|---|---|
| Date of relevant resolution   | June 18, 2010   |
| Positions and numbers of officers to receive stock options  | Titled executive officers<br>and/or employees with similar positions 20 |
| Type of shares underlying subscription rights to shares   | Described in (2) Situation of subscription rights to shares             |
| Number of shares  | Ditto   |
| Amount to be paid for the exercise of subscription rights to shares                                       | Ditto   |
| Exercise period   | Ditto   |
| Conditions for the exercise of subscription rights to shares  | Ditto   |
| Matters relating to the transfer of subscription rights to shares   | Ditto   |
| Matters relating to subrogation payments  | --  |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | --  |

11. Stock options based on a resolution at a Board of Directors meeting held on June 18, 2010

A meeting of the Board of Directors held on June 18, 2010 adopted a resolution on the determination of subscription requirements for subscription rights to shares to be issued as stock compensation-type stock options to the Company's directors and statutory auditors under Articles 238 and 240 of the Companies Act.

|   |   |
|---|---|
| Date of relevant resolution   | June 18, 2010   |
| Positions and numbers of officers to receive stock options  | The Company's directors 7<br>Statutory auditors 4           |
| Type of shares underlying subscription rights to shares   | Described in (2) Situation of subscription rights to shares |
| Number of shares  | Ditto   |
| Amount to be paid for the exercise of subscription rights to shares                                       | Ditto   |
| Exercise period   | Ditto   |
| Conditions for the exercise of subscription rights to shares  | Ditto   |
| Matters relating to the transfer of subscription rights to shares   | Ditto   |
| Matters relating to subrogation payments  | --  |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | --  |

12. Stock options based on a resolution at the annual shareholders meeting held on June 17, 2011

(i) A special resolution was passed at the 108th annual shareholders meeting held on June 17, 2011 that the shareholders meeting would delegate to the Board of Directors the determination of subscription requirements for subscription rights to shares to be issued as stock options to employees of the Company and directors of subsidiaries of the Company under particularly favorable conditions under the provisions of Articles 236, 238, and 239 of the Companies Act.

|   |   |
|---|---|
| Date of relevant resolution   | June 17, 2011   |
| Positions and numbers of officers to receive stock options  | Employees of the Company 81                                 |
| Type of shares underlying subscription rights to shares   | Described in (2) Situation of subscription rights to shares |
| Number of shares  | Ditto   |
| Amount to be paid for the exercise of subscription rights to shares                                       | Ditto   |
| Exercise period   | Ditto   |
| Conditions for the exercise of subscription rights to shares  | Ditto   |
| Matters relating to the transfer of subscription rights to shares   | Ditto   |
| Matters relating to subrogation payments  | --  |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | --  |

(ii) A special resolution was passed at the 108th annual shareholders meeting held on June 17, 2011 that the shareholders meeting would delegate to the Board of Directors the determination of subscription requirements for subscription rights to shares to be issued as stock compensation-type stock options to titled executive officers and employees with similar positions of the Company under particularly favorable conditions under the provisions of Articles 236, 238, and 239 of the Companies Act.

|   |  |
|---|--|
| Date of relevant resolution   | June 17, 2011  |
| Positions and numbers of officers to receive stock options  | Titled executive officers and/or employees with similar positions 14 |
| Type of shares underlying subscription rights to shares   | Described in (2) Situation of subscription rights to shares          |
| Number of shares  | Ditto  |
| Amount to be paid for the exercise of subscription rights to shares                                       | Ditto  |
| Exercise period   | Ditto  |
| Conditions for the exercise of subscription rights to shares  | Ditto  |
| Matters relating to the transfer of subscription rights to shares   | Ditto  |
| Matters relating to subrogation payments  | --   |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | --   |

13. Stock options based on a resolution at a Board of Directors meeting held on June 17, 2011

A meeting of the Board of Directors held on June 17, 2011 adopted a resolution on the determination of subscription requirements for subscription rights to shares to be issued as stock compensation-type stock options to the Company's directors and statutory auditors under Articles 238 and 240 of the Companies Act.

|   |   |
|---|---|
| Date of relevant resolution   | June 17, 2011   |
| Positions and numbers of officers to receive stock options  | The Company's directors 8<br>Statutory auditors 4           |
| Type of shares underlying subscription rights to shares   | Described in (2) Situation of subscription rights to shares |
| Number of shares  | Ditto   |
| Amount to be paid for the exercise of subscription rights to shares                                       | Ditto   |
| Exercise period   | Ditto   |
| Conditions for the exercise of subscription rights to shares  | Ditto   |
| Matters relating to the transfer of subscription rights to shares   | Ditto   |
| Matters relating to subrogation payments  | --  |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | --  |

14. Stock options based on a resolution at the annual shareholders meeting held on June 15, 2012

(i) A special resolution was passed at the 109th annual shareholders meeting held on June 15, 2012 that the shareholders meeting would delegate to the Board of Directors the determination of subscription requirements for subscription rights to shares to be issued as stock options to employees of the Company and directors of subsidiaries of the Company under particularly favorable conditions under the provisions of Articles 236, 238, and 239 of the Companies Act.

|   |   |
|---|---|
| Date of relevant resolution   | June 15, 2012   |
| Positions and numbers of officers to receive stock options  | Employees of the Company 64<br>Directors of subsidiaries of the Company 3 |
| Type of shares underlying subscription rights to shares   | Described in (2) Situation of subscription rights to shares               |
| Number of shares  | Ditto   |
| Amount to be paid for the exercise of subscription rights to shares                                       | Ditto   |
| Exercise period   | Ditto   |
| Conditions for the exercise of subscription rights to shares  | Ditto   |
| Matters relating to the transfer of subscription rights to shares   | Ditto   |
| Matters relating to subrogation payments  | --  |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | --  |

- (ii) A special resolution was passed at the 109th annual shareholders meeting held on June 15, 2012 that the shareholders meeting would delegate to the Board of Directors the determination of subscription requirements for subscription rights to shares to be issued as stock compensation-type stock options to titled executive officers and employees with similar positions of the Company under particularly favorable conditions under the provisions of Articles 236, 238, and 239 of the Companies Act.

|   |   |
|---|---|
| Date of relevant resolution   | June 15, 2012   |
| Positions and numbers of officers to receive stock options  | Titled executive officers<br>and/or employees with similar positions 19 |
| Type of shares underlying subscription rights to shares   | Described in (2) Situation of subscription rights to shares             |
| Number of shares  | Ditto   |
| Amount to be paid for the exercise of subscription rights to shares                                       | Ditto   |
| Exercise period   | Ditto   |
| Conditions for the exercise of subscription rights to shares  | Ditto   |
| Matters relating to the transfer of subscription rights to shares   | Ditto   |
| Matters relating to subrogation payments  | --  |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | --  |

15. Stock options based on a resolution at a Board of Directors meeting held on June 15, 2012

A meeting of the Board of Directors held on June 15, 2012 adopted a resolution on the determination of subscription requirements for subscription rights to shares to be issued as stock compensation-type stock options to the Company's directors and statutory auditors under Articles 238 and 240 of the Companies Act.

|   |   |
|---|---|
| Date of relevant resolution   | June 15, 2012   |
| Positions and numbers of officers to receive stock options  | The Company's directors 9<br>Statutory auditors 4           |
| Type of shares underlying subscription rights to shares   | Described in (2) Situation of subscription rights to shares |
| Number of shares  | Ditto   |
| Amount to be paid for the exercise of subscription rights to shares                                       | Ditto   |
| Exercise period   | Ditto   |
| Conditions for the exercise of subscription rights to shares  | Ditto   |
| Matters relating to the transfer of subscription rights to shares   | Ditto   |
| Matters relating to subrogation payments  | --  |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | --  |



16. Stock options based on a resolution at the annual shareholders meeting held on June 21, 2013

- (i) A special resolution was passed at the 110th annual shareholders meeting held on June 21, 2013 that the shareholders meeting would delegate to the Board of Directors the determination of subscription requirements for subscription rights to shares to be issued as stock options to employees of the Company and directors of subsidiaries of the Company under particularly favorable conditions under the provisions of Articles 236, 238, and 239 of the Companies Act.

|   |   |
|---|---|
| Date of relevant resolution   | June 21, 2013   |
| Positions and numbers of officers to receive stock options  | Employees of the Company 59<br>Directors of subsidiaries of the Company 2 |
| Type of shares underlying subscription rights to shares   | Described in (2) Situation of subscription rights to shares               |
| Number of shares  | Ditto   |
| Amount to be paid for the exercise of subscription rights to shares                                       | Ditto   |
| Exercise period   | Ditto   |
| Conditions for the exercise of subscription rights to shares  | Ditto   |
| Matters relating to the transfer of subscription rights to shares   | Ditto   |
| Matters relating to subrogation payments  | --  |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | --  |

- (ii) A special resolution was passed at the 110th annual shareholders meeting held on June 21, 2013 that the shareholders meeting would delegate to the Board of Directors the determination of subscription requirements for subscription rights to shares to be issued as stock compensation-type stock options to titled executive officers and employees with similar positions of the Company under particularly favorable conditions under the provisions of Articles 236, 238, and 239 of the Companies Act.

|   |  |
|---|--|
| Date of relevant resolution   | June 21, 2013  |
| Positions and numbers of officers to receive stock options  | Titled executive officers and/or employees with similar positions 23 |
| Type of shares underlying subscription rights to shares   | Described in (2) Situation of subscription rights to shares          |
| Number of shares  | Ditto  |
| Amount to be paid for the exercise of subscription rights to shares                                       | Ditto  |
| Exercise period   | Ditto  |
| Conditions for the exercise of subscription rights to shares  | Ditto  |
| Matters relating to the transfer of subscription rights to shares   | Ditto  |
| Matters relating to subrogation payments  | --   |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | --   |

17. Stock options based on a resolution at a Board of Directors meeting held on June 21, 2013

A meeting of the Board of Directors held on June 21, 2013 adopted a resolution on the determination of subscription requirements for subscription rights to shares to be issued as stock compensation-type stock options to the Company's directors and statutory auditors under Articles 238 and 240 of the Companies Act.

|   |   |
|---|---|
| Date of relevant resolution   | June 21, 2013   |
| Positions and numbers of officers to receive stock options  | The Company's directors 9<br>Statutory auditors 4           |
| Type of shares underlying subscription rights to shares   | Described in (2) Situation of subscription rights to shares |
| Number of shares  | Ditto   |
| Amount to be paid for the exercise of subscription rights to shares                                       | Ditto   |
| Exercise period   | Ditto   |
| Conditions for the exercise of subscription rights to shares  | Ditto   |
| Matters relating to the transfer of subscription rights to shares   | Ditto   |
| Matters relating to subrogation payments  | --  |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | --  |

18. Stock options based on a resolution at the annual shareholders meeting held on June 20, 2014

- (i) A special resolution was passed at the 111th annual shareholders meeting held on June 20, 2014 that the shareholders meeting would delegate to the Board of Directors the determination of subscription requirements for subscription rights to shares to be issued as stock options to employees of the Company and directors of subsidiaries of the Company under particularly favorable conditions under the provisions of Articles 236, 238, and 239 of the Companies Act.

|   |   |
|---|---|
| Date of relevant resolution   | June 20, 2014   |
| Positions and numbers of officers to receive stock options  | Employees of the Company 63                                 |
| Type of shares underlying subscription rights to shares   | Described in (2) Situation of subscription rights to shares |
| Number of shares  | Ditto   |
| Amount to be paid for the exercise of subscription rights to shares                                       | Ditto   |
| Exercise period   | Ditto   |
| Conditions for the exercise of subscription rights to shares  | Ditto   |
| Matters relating to the transfer of subscription rights to shares   | Ditto   |
| Matters relating to subrogation payments  | --  |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | --  |

- (ii) A special resolution was passed at the 111th annual shareholders meeting held on June 20, 2014 that the shareholders meeting would delegate to the Board of Directors the determination of subscription requirements for subscription rights to shares to be issued as stock compensation-type stock options to titled executive officers and employees with similar positions of the Company under particularly favorable conditions under the provisions of Articles 236, 238, and 239 of the Companies Act.

|   |  |
|---|--|
| Date of relevant resolution   | June 20, 2014  |
| Positions and numbers of officers to receive stock options  | Titled executive officers and/or employees with similar positions 19 |
| Type of shares underlying subscription rights to shares   | Described in (2) Situation of subscription rights to shares          |
| Number of shares  | Ditto  |
| Amount to be paid for the exercise of subscription rights to shares                                       | Ditto  |
| Exercise period   | Ditto  |
| Conditions for the exercise of subscription rights to shares  | Ditto  |
| Matters relating to the transfer of subscription rights to shares   | Ditto  |
| Matters relating to subrogation payments  | --   |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | --   |

19. Stock options based on a resolution at a Board of Directors meeting held on June 20, 2014

A meeting of the Board of Directors held on June 20, 2014 adopted a resolution on the determination of subscription requirements for subscription rights to shares to be issued as stock compensation-type stock options to the Company's directors and statutory auditors under Articles 238 and 240 of the Companies Act.

|   |   |
|---|---|
| Date of relevant resolution   | June 20, 2014   |
| Positions and numbers of officers to receive stock options  | The Company's directors 9<br>Statutory auditors 5           |
| Type of shares underlying subscription rights to shares   | Described in (2) Situation of subscription rights to shares |
| Number of shares  | Ditto   |
| Amount to be paid for the exercise of subscription rights to shares                                       | Ditto   |
| Exercise period   | Ditto   |
| Conditions for the exercise of subscription rights to shares  | Ditto   |
| Matters relating to the transfer of subscription rights to shares   | Ditto   |
| Matters relating to subrogation payments  | --  |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | --  |

20. Stock options based on a resolution at the annual shareholders meeting held on June 18, 2015

A special resolution was passed at the 112th annual shareholders meeting held on June 18, 2015 that the shareholders meeting would delegate to the Board of Directors the determination of subscription requirements for subscription rights to shares to be issued as stock compensation-type stock options to titled executive officers and employees with similar positions of the Company under particularly favorable conditions under the provisions of Articles 236, 238, and 239 of the Companies Act.

|   |   |
|---|---|
| Date of relevant resolution   | June 18, 2015   |
| Positions and numbers of officers to receive stock options  | Titled executive officers<br>and/or employees with similar positions 25 |
| Type of shares underlying subscription rights to shares   | Described in (2) Situation of subscription rights to shares             |
| Number of shares  | Ditto   |
| Amount to be paid for the exercise of subscription rights to shares                                       | Ditto   |
| Exercise period   | Ditto   |
| Conditions for the exercise of subscription rights to shares  | Ditto   |
| Matters relating to the transfer of subscription rights to shares   | Ditto   |
| Matters relating to subrogation payments  | --  |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | --  |

21. Stock options based on a resolution at a Board of Directors meeting held on June 18, 2015

A meeting of the Board of Directors held on June 18, 2015 adopted a resolution on the determination of subscription requirements for subscription rights to shares to be issued as stock compensation-type stock options to the Company's directors and statutory auditors under Articles 238 and 240 of the Companies Act.

|   |   |
|---|---|
| Date of relevant resolution   | June 18, 2015   |
| Positions and numbers of officers to receive stock options  | The Company's directors 8<br>Statutory auditors 5           |
| Type of shares underlying subscription rights to shares   | Described in (2) Situation of subscription rights to shares |
| Number of shares  | Ditto   |
| Amount to be paid for the exercise of subscription rights to shares                                       | Ditto   |
| Exercise period   | Ditto   |
| Conditions for the exercise of subscription rights to shares  | Ditto   |
| Matters relating to the transfer of subscription rights to shares   | Ditto   |
| Matters relating to subrogation payments  | --  |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | --  |

22. Stock options based on a resolution at the annual shareholders meeting held on June 22, 2016

A special resolution was passed at the 113th annual shareholders meeting held on June 22, 2016 that the shareholders meeting would delegate to the Board of Directors the determination of subscription requirements for subscription rights to shares to be issued as stock compensation-type stock options to titled executive officers and employees with similar positions of the Company under particularly favorable conditions under the provisions of Articles 236, 238, and 239 of the Companies Act.

|   |   |
|---|---|
| Date of relevant resolution   | June 22, 2016   |
| Positions and numbers of officers to receive stock options  | Titled executive officers<br>and/or employees with similar positions 25   |
| Type of shares underlying subscription rights to shares   | Common stock  |
| Number of shares  | 153,000 shares maximum  |
| Amount to be paid for the exercise of subscription rights to shares                                       | One yen per share   |
| Exercise period   | Within 20 years of the day following the date when the subscription rights to shares are granted  |
| Conditions for the exercise of subscription rights to shares  | Stipulated in a resolution of the Board of Directors of the Company and the "Subscription Rights to Share Allocation Agreement" based on the resolution concluded between the Company and the recipients of subscription rights to shares |
| Matters relating to the transfer of subscription rights to shares   | The approval of the Board of Directors is required for the transfer of subscription rights to shares.   |
| Matters relating to subrogation payments  | --  |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | --  |

23. Stock options based on a resolution at a Board of Directors meeting held on June 22, 2016

A meeting of the Board of Directors held on June 22, 2016 adopted a resolution on the determination of subscription requirements for subscription rights to shares to be issued as stock compensation-type stock options to the Company's directors and statutory auditors under Articles 238 and 240 of the Companies Act.

|   |   |
|---|---|
| Date of relevant resolution   | June 22, 2016   |
| Positions and numbers of officers to receive stock options  | The Company's directors 8<br>Statutory auditors 5   |
| Type of shares underlying subscription rights to shares   | Common stock  |
| Number of shares  | 175,000 shares maximum  |
| Amount to be paid for the exercise of subscription rights to shares                                       | One yen per share   |
| Exercise period   | Within 20 years of the day following the date when the subscription rights to shares are granted  |
| Conditions for the exercise of subscription rights to shares  | Stipulated in a resolution of the Board of Directors of the Company and the "Subscription Rights to Share Allocation Agreement" based on the resolution concluded between the Company and the recipients of subscription rights to shares |
| Matters relating to the transfer of subscription rights to shares   | The approval of the Board of Directors is required for the transfer of subscription rights to shares.   |
| Matters relating to subrogation payments  | --  |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | --  |

## 2. Acquisition of Treasury stock

Type of stock The acquisition of common stock under Article 155, Item 3 of the Companies Act and the acquisition of common stock under Article 155, Item 7 of the Companies Act

(1) Acquisition based on resolutions at the shareholders meeting

Not applicable.

(2) Acquisition based on resolutions at Board of Directors meeting

| Classification   | Number of shares | Total value (yen) |
|--|------------------|-------------------|
| Resolution at a Board of Directors meeting held on March 13, 2015<br>(Acquisition period: from March 13, 2015 to September 11, 2015) | 1,500,000        | 1,200,000,000     |
| Treasury stock acquired before the fiscal year under review  | --               | --                |
| Treasury stock acquired in the fiscal year under review  | 1,467,000        | 1,086,202,000     |
| Number and total value of remaining Treasury stock   | 33,000           | 113,798,000       |
| Ratio of Treasury stock that had not been acquired until the end of the fiscal year under review (%)                                 | 2.2              | 9.5               |
| Treasury stock acquired in the current fiscal year   | --               | --                |
| Ratio of Treasury stock that has not been acquired until the date of the submission of the report (%)                                | 2.2              | 9.5               |

| Classification  | Number of shares | Total value (yen) |
|---|------------------|-------------------|
| Resolution at a Board of Directors meeting held on May 13, 2015<br>(Acquisition period: from May 13, 2015 to November 11, 2015) | 1,500,000        | 1,200,000,000     |
| Treasury stock acquired before the fiscal year under review   | --               | --                |
| Treasury stock acquired in the fiscal year under review   | 1,500,000        | 1,149,505,000     |
| Number and total value of remaining Treasury stock  | --               | 50,495,000        |
| Ratio of Treasury stock that had not been acquired until the end of the fiscal year under review (%)                            | 0.0              | 4.2               |
| Treasury stock acquired in the current fiscal year  | --               | --                |
| Ratio of Treasury stock that has not been acquired until the date of the submission of the report (%)                           | 0.0              | 4.2               |

| Classification  | Number of shares | Total value (yen) |
|---|------------------|-------------------|
| Resolution at a Board of Directors meeting held on June 18, 2015<br>(Acquisition period: from June 18, 2015 to November 11, 2015) | 1,500,000        | 1,200,000,000     |
| Treasury stock acquired before the fiscal year under review   | --               | --                |
| Treasury stock acquired in the fiscal year under review   | --               | --                |
| Number and total value of remaining Treasury stock  | 1,500,000        | 1,200,000,000     |
| Ratio of Treasury stock that had not been acquired until the end of the fiscal year under review (%)                              | 100.0            | 100.0             |
| Treasury stock acquired in the current fiscal year  | --               | --                |
| Ratio of Treasury stock that has not been acquired until the date of the submission of the report (%)                             | 100.0            | 100.0             |

| Classification   | Number of shares | Total value (yen) |
|--|------------------|-------------------|
| Resolution at a Board of Directors meeting held on November 12, 2015<br>(Acquisition period: from November 12, 2015 to May 11, 2016) | 1,500,000        | 1,000,000,000     |
| Treasury stock acquired before the fiscal year under review  | --               | --                |
| Treasury stock acquired in the fiscal year under review  | --               | --                |
| Number and total value of remaining Treasury stock   | 1,500,000        | 1,000,000,000     |
| Ratio of Treasury stock that had not been acquired until the end of the fiscal year under review (%)                                 | 100.0            | 100.0             |
| Treasury stock acquired in the current fiscal year   | 1,200,000        | 485,139,000       |
| Ratio of Treasury stock that has not been acquired until the date of the submission of the report (%)                                | 20.0             | 51.5              |

| Classification   | Number of shares | Total value (yen) |
|--|------------------|-------------------|
| Resolution at a Board of Directors meeting held on April 15, 2016<br>(Acquisition period: from April 15, 2015 to October 14, 2016) | 1,500,000        | 700,000,000       |
| Treasury stock acquired before the fiscal year under review  | --               | --                |
| Treasury stock acquired in the fiscal year under review  | --               | --                |
| Number and total value of remaining Treasury stock   | 1,500,000        | 700,000,000       |
| Ratio of Treasury stock that had not been acquired until the end of the fiscal year under review (%)                               | 100.0            | 100.0             |
| Treasury stock acquired in the current fiscal year   | 1,200,000        | 531,805,000       |
| Ratio of Treasury stock that has not been acquired until the date of the submission of the report (%)                              | 20.0             | 24.0              |

(3) Acquisition not based on resolutions at the shareholders meeting or Board of Directors meetings

| Classification  | Number of shares | Total value (yen) |
|---|------------------|-------------------|
| Treasury stock acquired in the fiscal year under review | 5,257            | 3,214,698         |
| Treasury stock acquired in the current fiscal year      | 1,045            | 479,232           |

(Note) The Treasury stock acquired in the current fiscal year does not include fractional shares repurchased from June 1, 2016 to the date of the submission of the report.

(4) Treatment of acquired Treasury stock and Treasury stock held

| Classification  | Fiscal year under review |                               | Current fiscal year |                               |
|---|--------------------------|-------------------------------|---------------------|-------------------------------|
|   | Number of shares         | Total value disposed of (yen) | Number of shares    | Total value disposed of (yen) |
| Acquired Treasury stock offered to prospective underwriters                                 | --                       | --                            | --                  | --                            |
| Acquired Treasury stock cancelled   | --                       | --                            | --                  | --                            |
| Acquired Treasury stock transferred in relation to mergers, stock swaps, and company splits | --                       | --                            | --                  | --                            |
| Other (Note 1,2)  | 234,000                  | 140,076,000                   | 97,000              | 58,394,000                    |
| Treasury stock held(Note 3)   | 8,023,683                | --                            | 10,327,728          | --                            |

(Note) 1. Exercise of subscription rights to shares (234,000 shares, disposal of 140,076,000 yen) in the fiscal year under review.

Exercise of subscription rights to shares (97,000 shares, disposal of 58,394,000 yen) in the current fiscal year.

- The Treasury stock disposed of in the current fiscal year does not include fractional shares transferred from June 1, 2016 to the date of the submission of the report.
- The Treasury stock held in the current fiscal year does not include fractional shares repurchased or transferred from June 1, 2016 to the date of the submission of the report.

### 3. Dividend Policy

The Group adopts the basic policy of increasing its collective capabilities and returning profits to shareholders by sustaining aggressive investment in development projects in response to changing social demands and continuing its efforts to enhance competitiveness and streamline management.

Based on the policy, the Group will make united efforts to strengthen business structure and secure stable dividends.

As part of its returns to shareholders, the Company acquires Treasury stock for flexible capital policy, comprehensively considering the need for Treasury stock acquisitions, the financial standing of the Company, and the trends of prices of the Company's stock.

For the year ended March 31, 2016, the Company has decided to pay annual dividends of 16 yen per share including interim dividends of 8 yen per share and a year-end dividends of 8 yen per share.

Dividends are determined by the Board of Directors.

The Articles of Incorporation stipulate that the Company may pay dividends by resolution of the Board of Directors under the provisions of Article 459, Paragraph 1 of the Companies Act.

For the fiscal year ending March 31, 2017 the Company plans to pay annual dividends of 16 yen per share, including interim dividends of 8 yen per share and year-end dividends of 8 yen per share.

The Articles of Incorporation specifies that the Company may pay interim dividends whose record date is September 30 of every year by resolution of the Board of Directors.

The table below shows dividends for the fiscal year ended of March 31, 2016

| Resolution   | Total amount of dividend<br>(million yen) | Dividend per share<br>(yen) |
|--|---|-----------------------------|
| Resolution of Board of Directors on<br>November 12, 2015 | 534                                       | 8.00                        |
| Resolution of Board of Directors on<br>May 12, 2016      | 535                                       | 8.00                        |

### 4. Trends in Stock Prices

#### (1) Highest and lowest stock prices in each of the past five years

| Fiscal term               | 109 <sup>th</sup> term | 110 <sup>th</sup> term | 111 <sup>th</sup> term | 112 <sup>th</sup> term | 113 <sup>th</sup> term |
|---------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| Closing month<br>and year | March 2012             | March 2013             | March 2014             | March 2015             | March 2016             |
| Highest (yen)             | 990                    | 983                    | 677                    | 814                    | 788                    |
| Lowest (yen)              | 259                    | 457                    | 426                    | 505                    | 355                    |

(Note) The highest and lowest stock prices above are those on the First Section of the Tokyo Stock Exchange.

#### (2) Highest and lowest stock prices in each month of the past six months

| Month         | October 2015 | November | December | January 2016 | February | March |
|---------------|--------------|----------|----------|--------------|----------|-------|
| Highest (yen) | 618          | 623      | 589      | 533          | 443      | 457   |
| Lowest (yen)  | 429          | 543      | 500      | 419          | 355      | 386   |

(Note) The highest and lowest stock prices above are those on the First Section of the Tokyo Stock Exchange.

5. Officers

Male: 13 Female: -- (The ratio of female among the officers: -- % )

| Title                   | Job title           | Name              | Date of birth     | Career summary   | Term of office | Number of shares held (thousand shares) |
|-------------------------|---------------------|-------------------|-------------------|--|----------------|---|
| Representative Director | Chairman and CEO    | Takao Nishijima   | December 14, 1947 | May 1970 Joined the Fuji Bank, Limited. (now Mizuho Bank, Ltd.)<br>Feb. 1999 Deputy General Manager of the Sales Division of Tokyo Seimitsu Co., Ltd.<br>May 1999 General Manager of the Sales Development Division of the Company and Managing Director of Tsugami Kohan Co., Ltd.<br>Jun. 2000 Director and General Manager of the Sales Development Division, Control Headquarters<br>Apr. 2003 Representative Director, Chairman and CEO<br>Apr. 2006 Representative Director, Chairman and CEO<br>Apr. 2012 Representative Director, Chairman and CEO (current positions)   | (Note 3)       | 10                                      |
| Representative Director | COO, Administration | Toshio Honma      | August 2, 1952    | Apr. 1975 Joined the Hokuetsu Bank, Ltd.<br>Apr. 2002 Manager of the Nagaoka Shinsan Branch of the Hokuetsu Bank, Ltd.<br>Apr. 2004 Manager of the Shinmachi Branch of Hokuetsu Bank, Ltd.<br>Apr. 2006 Manager of the Naoetsu Branch of Hokuetsu Bank, Ltd.<br>Apr. 2008 Managing Executive Officer and General Manager of the Administration Division of the Company<br>Jun. 2009 Director, Managing Executive Officer and General Manager of the Administration Division of the Company<br>May 2011 Director and Senior Advisor of the Company<br>Jun. 2011 Standing Statutory Auditor<br>Jun. 2013 Representative Director, COO, Administration (current positions)  | (Note 3)       | 10                                      |
| Representative Director | COO, Plant Manager  | Toshiharu Niijima | November 14, 1954 | Nov.1979 Joined the Company<br>Oct. 2003 Leader of the Automatic Lathe Group, Technology Headquarters<br>Apr. 2005 Executive Officer and Deputy General Manager of the Technology Headquarters<br>Jul. 2005 Executive Officer and Acting General Manager of the Technology Headquarters<br>Apr. 2006 Managing Executive Officer and General Manager of the Technology Headquarters<br>Apr. 2008 Managing Executive Officer, General Manager of the Technology Headquarters and Deputy General Manager of the Production Headquarters<br>Jun. 2008 Managing Executive Officer, General Manager of the Technology Headquarters, Deputy General Manager of the Production Headquarters and General Manager of the Nagaoka Factory<br>Apr. 2009 Senior Executive Officer and General Manager of the Nagaoka Factory<br>Jun. 2009 Representative Director, Senior Executive Officer and General Manager of the Nagaoka Factory<br>Apr. 2012 Representative Director, COO, Plant Manager<br>Dec. 2014 Representative Director, COO, Technology Manager (current positions) | (Note 3)       | 14                                      |



| Title    | Job title  | Name              | Date of birth     | Career summary   | Term of office | Number of shares held (thousand shares) |
|----------|--|-------------------|-------------------|--|----------------|---|
| Director | Senior Advisor, President of TSUGAMI KOREA Co., Ltd.,              | Byun Jae-Hyun     | July 10, 1956     | <p>Oct. 1982 General Manager of the Import Business Division of Samsung C&amp;T Corporation</p> <p>Jul. 2000 CEO of DI Corporation</p> <p>Jan. 2007 Vice President of Exicon Co., Ltd.</p> <p>Jan. 2010 President of TSUGAMI KOREA Co., Ltd.</p> <p>Apr. 2012 Senior Executive Officer, Overseas division, President of TSUGAMI KOREA Co., Ltd.</p> <p>Jun. 2012 Director, Senior Executive Officer, Overseas division, President of TSUGAMI KOREA Co., Ltd.</p> <p>Jun. 2013 Director, Senior Advisor, President of TSUGAMI KOREA Co., Ltd., President of TSUGAMI Universal Pte. Ltd.</p> <p>Sep. 2014 Director, Senior Advisor, President of TSUGAMI KOREA Co., Ltd. (current positions)</p>   | (Note 3)       | --                                      |
| Director | Senior Advisor, President of PRECISION TSUGAMI (CHINA) CORPORATION | Donglei TANG      | November 27, 1962 | <p>Jul. 1992 Joined Tokyo Seimitsu Co., Ltd.</p> <p>Nov. 2005 Administration Officer and General Manager of China Office of the Company, and President of PRECISION TSUGAMI (CHINA) CORPORATION</p> <p>Apr. 2009 Executive Officer and Manager of Shanghai Office of the Company, and President of PRECISION TSUGAMI (CHINA) CORPORATION</p> <p>Apr. 2010 Managing Executive Officer in charge of China operations and Vice Chairman and President of PRECISION TSUGAMI (CHINA) CORPORATION</p> <p>Jun. 2010 Director, Managing Executive Officer in Charge of China Operations of the Company, and Vice Chairman and CEO of PRECISION TSUGAMI (CHINA) CORPORATION</p> <p>Apr. 2012 Director, Senior Executive Officer, President of PRECISION TSUGAMI (CHINA) CORPORATION</p> <p>Jun. 2013 Director, Senior Advisor, President of PRECISION TSUGAMI (CHINA) CORPORATION (current positions)</p> | (Note 3)       | --                                      |
| Director |  | Takeo Nakagawa    | October 12, 1938  | <p>May 1999 Professor Emeritus at the University of Tokyo (current post)</p> <p>Oct. 2000 CEO of Fine Tech Corporation (current positions)</p> <p>Jun. 2007 Auditor at FANUC CORPORATION (current position)</p> <p>Jun. 2008 Director of the Company (current position)</p> <p>Feb. 2014 Director of OSG CORPORATION (current position)</p> <p>April 2015 CEO of Fine Tech Corporation (current position)</p>  | (Note 3)       | 20                                      |
| Director |  | Shigeru Nishiyama | March 4, 1948     | <p>Jun. 1971 Joined Mitsui Bank (now Sumitomo Mitsui Banking Corporation)</p> <p>Jun. 2006 Deputy President and Representative Director of Sumitomo Mitsui Financial Group, Inc.</p> <p>Dec. 2008 Representative Director, President of HORAI Co., Ltd.</p> <p>Jun. 2010 Representative Director, CEO of HORAI Co., Ltd.</p> <p>Jun. 2013 Director of the Company (current position)</p> <p>Jun. 2013 Auditor at Mitsui Sugar Co., Ltd. (current position)</p>   | (Note 3)       | --                                      |
| Director |  | Kunio Shimada     | August 16, 1959   | <p>Apr. 1986 Registered as an attorney(current position) Attorney with Iwata Godo Attorneys and Counsellors at Law</p> <p>Oct. 1991 Registered as an attorney in New York State</p> <p>Jun. 2000 Managing Director of Mizuho Servicing Co., Ltd. (current position)</p> <p>Jul. 2010 Representative partner at Shimada Hamba &amp; Osajima (current position)</p> <p>Jun. 2011 Director of the Company (current position)</p> <p>Nov. 2011 Supervisory Officer of Hulic Reit, Inc. (current position)</p>  | (Note 3)       | --                                      |

| Title                      | Job title | Name                | Date of birth     | Career summary  | Term of office | Number of shares held (thousand shares) |
|----------------------------|-----------|---------------------|-------------------|---|----------------|---|
| Standing Statutory Auditor |           | Keiji Hayazaki      | April 25, 1954    | Apr. 1979 Joined Mitsui Bank (now Sumitomo Mitsui Banking Corporation)<br>Jan. 2005 General Manager of Administration Division of the Company<br>Jul. 2005 Executive Officer, Senior Manager of Administration Division, Finance<br>Apr. 2012 Senior Executive Officer and Senior Manager, Administration Division, Finance, General affairs<br>Jun. 2014 Standing Statutory Auditor of the Company (current position)  | (Note 5)       | --                                      |
| Statutory Auditor          |           | Kenji Yamada        | February 20, 1948 | Jul. 1971 Joined Mitsui Ocean Development & Engineering Co., Ltd. (now MODEC, Inc.)<br>Mar. 1997 Director of MODEC, Inc.<br>Mar. 2001 President & CEO of MODEC, Inc.<br>Mar. 2009 Chairman & Chief Executive Officer of MODEC, Inc.<br>Jun. 2012 Director of the Company<br>Jun. 2013 Standing Statutory Auditor<br>Jun. 2014 Statutory Auditor of the Company (current position)   | (Note 4)       | --                                      |
| Statutory Auditor          |           | Morikuni Uchigasaki | August 6, 1950    | Jul. 2005 Joined Mori Seiki Co., Ltd. (now DMG MORI SEIKI CO., LTD.)<br>Jun. 2006 Director Accounting / Finance HQ Executive Officer of MORI SEIKI CO., LTD.<br>Jun. 2008 Managing director of MORI SEIKI CO., LTD.<br>Jun. 2009 Operating Director of MORI SEIKI CO., LTD.<br>Jun. 2011 Standing Auditor of DMG MORI SEIKI CO., LTD<br>Jun. 2014 Advisor of DMG MORI SEIKI CO., LTD (current position)<br>Auditor at TAIYO KOKI CO., LTD. (current position)<br>Statutory Auditor of the Company (current position)  | (Note 5)       | --                                      |
| Statutory Auditor          |           | Hitoshi Yoshida     | November 26, 1960 | Apr. 1983 Joined TOKYO SEIMITSU CO., LTD.<br>Apr. 2002 Executive Officer of the Metrology Company and Leader of Multi-purpose measuring Group of TOKYO SEIMITSU CO., LTD.<br>Apr. 2005 Managing Executive Officer of the Metrology Company of TOKYO SEIMITSU CO., LTD.<br>Jun. 2007 Director of TOKYO SEIMITSU CO., LTD.<br>Oct. 2007 President of the Metrology Company of TOKYO SEIMITSU CO., LTD.<br>Jun. 2011 Representative Director of TOKYO SEIMITSU CO., LTD.<br>Apr. 2015 President and CEO of TOKYO SEIMITSU CO., LTD. (current position)<br>Jun. 2015 Statutory Auditor of the Company (current position)  | (Note 6)       | --                                      |
| Statutory Auditor          |           | Hideo Teramoto      | May 20, 1960      | Apr. 1983 Joined the Daiichi Mutual Life Insurance Company (currently The Dai-ichi Life Insurance Company, Limited)<br>Apr. 2010 Executive Officer, General Manager, Corporate Planning Department of The Dai-ichi Life Insurance Company, Limited<br>Apr. 2011 Managing Executive Officer, General Manager, Corporate Planning Department of The Dai-ichi Life Insurance Company, Limited<br>Jun. 2012 Director, Managing Executive Officer, General Manager, Corporate Planning Department of The Dai-ichi Life Insurance Company, Limited<br>Apr. 2013 Director, Managing Executive Officer, Deputy Chief General Manager for Group Management Headquarters The Dai-ichi Life Insurance Company, Limited<br>Jun. 2014 Statutory Auditor of the Company (current position)<br>Apr. 2015 Director, Senior Managing Executive Officer, Chief General Manager for Marketing Promotion of The Dai-ichi Life Insurance Company, Limited (current position) | (Note 5)       | --                                      |
| Total                      |           |                     |                   |   |                | 54                                      |

- (Note) 1. Directors Takeo Nakagawa, Shigeru Nishiyama and Kunio Shimada are outside directors.  
 2. Statutory Auditors Morikuni Uchigasaki, Hideo Teramoto and Hitoshi Yoshida are outside statutory auditors.  
 3. One year from the closing of the annual shareholders meeting held on June 22, 2016  
 4. Four years from the closing of the annual shareholders meeting held on June 21, 2013  
 5. Four years from the closing of the annual shareholders meeting held on June 20, 2014  
 6. Four years from the closing of the annual shareholders meeting held on June 18, 2015

## 6. Corporate Governance

### (1) Corporate governance

#### (Basic policy on corporate governance)

The Company is committed to fulfilling the expectations of its shareholders by making quick and appropriate management judgments that facilitate continued growth in corporate value. As a member of the international community, the Company also understands that it needs to fulfill its corporate social responsibility.

Promoting IR activities and disclosure for shareholders and investors, the Company will seek to enhance management transparency.

### (i) Corporate governance system

#### I) Outline of the corporate governance system and reason for the establishment of the system

The Company operates based on a statutory auditor system involving the Board of Directors and the Board of Statutory Auditors. The Company had eight directors (including three outside directors) and five statutory auditors (including three outside statutory auditors) as of June 23, 2016.

The Company positions the Board of Directors and Board of Statutory Auditors as key organs for corporate governance and makes decisions through comprehensive discussions and studies of management challenges and significant matters to address. To enhance corporate governance, the Company has placed the Audit Office (two officers) under the direct control of the CEO and has established a Risk Management Committee and an Information Security Committee.

The Company has appointed outside directors and outside statutory auditors to audit the Board of Directors from a fair and objective perspective and strengthen the auditing function, and has also designated three independent officers (two outside directors and one outside statutory auditor) as stipulated in the Securities Listing Regulations of the Tokyo Stock Exchange to strengthen its governance function from the perspective of protecting the interests of shareholders.

#### II) Development of internal control system

The Company's Board of Directors has adopted the following basic policies for building internal control systems:

##### i. Systems for ensuring the execution of the duties of directors and employees are in compliance with laws and ordinances and the Articles of Incorporation

a. Given that compliance is one of its key management issues, the Board of Directors shall establish the Tsugami Group Code of Conduct and develop a compliance policy to ensure that the Company operates based on sound social practices.

b. The Company shall establish a "whistle-blowing system," an internal reporting system through which activities that apparently violate the laws and ordinances, the Articles of Incorporation, any other internal rules, or social norms carried out by directors or employees are reported. Whistle blowers shall be protected.

c. The Company shall have an Audit Office, an organization under the direct control of the CEO, and shall conduct internal audits of compliance.

d. The Company has a Board of Statutory Auditors. The directors' execution of their duties shall be in accordance with the standards on audits by statutory auditors established by the Board of Statutory Auditors.

##### ii. Systems for the storage and management of information concerning directors' execution of duties

The Company shall appropriately maintain and manage the minutes of the Board of Directors, approval documents, documents associated with the directors' executions of their duties, and other related information in accordance with internal rules, such as the document management rules and information security management rules.

##### iii. Rules and systems concerning risk management

To manage the diverse risks associated with its business activities, and to prevent such risks from materializing, the Company shall have a risk management committee through which it will collect and analyze information about risks to identify any indications that risks are emerging at an early stage. The Company shall also establish a risk management system by developing rules and manuals so that it can promptly and accurately respond to the situation if risks have materialized.

##### iv. Systems for securing efficiency of directors' execution of duties

a. The Company shall hold regular meetings of the Board of Directors every month, and ensure that it makes important decisions on items that are stipulated in the Board of Directors Rules or that come under the criteria for deliberation at meetings of the Board of Directors, through discussions at meetings of the Board of Directors.

- b. In addition, the Company shall hold monthly corporate management meetings to share management information, through which it considers and makes flexible decisions on issues related to important operations in its effort to achieve management efficiency.
- v. System for ensuring the appropriateness of business in the corporate group consisting of the Company and its subsidiaries
  - a. A system for reporting to the Company matters related to the execution of duties by the Directors of subsidiaries, and the like shall be put into operation.

The Company shall set the Group Companies Management Regulations, and hold a meeting for reporting the business of its subsidiaries every month in order to accurately understand the details of the management of the subsidiaries. The Company's subsidiaries shall report their monthly results, financial position and other important information at such meetings.
  - b. Regulations and other systems relating to the management of risk loss at subsidiaries

The Company shall hold meetings of the Risk Management Committee as needed, understand the risks and take appropriate measures for preventing or minimizing various risks that surround Group operations in compliance with risk management rules and essential risk management execution rules.
  - c. System for ensuring efficient execution of duties by the Directors of subsidiaries, and the like

The Company shall respect the management independence of its subsidiaries. At the same time, the Company shall ensure efficiency by discussing important matters with the subsidiaries in advance at regular, monthly management meetings, and the like, and by asking the subsidiaries to resolve such matters at the meetings of their Board of Directors.
  - d. Systems for ensuring the conformity of the execution of duties by the Directors, and the like, and the employees of subsidiaries with laws, regulations and Articles of Incorporation
    - 1) The Company shall ensure the compliance systems of its subsidiaries based on the Tsugami Group Code of Conduct.
    - 2) The Directors, etc., of the Company's subsidiaries shall take part in regular monthly management meetings and advance discussions on internal control.
    - 3) The internal audit division (the Audit Office) of the Company shall confirm that the Company's subsidiaries are complying with laws, regulations and in-house rules in the execution of their businesses.
- vi. Matters concerning applicable employees in cases where statutory auditors request the assignment of employees who should assist them in their duties
  - a. The Company may assign employees (auxiliary employees) who should assist statutory auditors in cases where statutory auditors request their assignment.
  - b. The Company shall work to strengthen its system of auxiliary employees from the viewpoint of ensuring the effectiveness of the audit, taking into account corporate size, business type, management risks and other company-specific circumstances.
- vii. Matters concerning the independence of employees from Directors stated in the foregoing paragraph and matters concerning securing the effectiveness of instructions statutory auditors provide to the concerned employees
  - a. The Company shall work to ensure the independence of auxiliary employees from Directors.
  - b. The Company shall address issues, including clarification of the following items necessary for ensuring the independence of auxiliary employees.
    - 1) The authority that auxiliary employees have
    - 2) Organizations which auxiliary employees belong to
    - 3) Elimination of the chain of command Directors have over auxiliary employees
    - 4) Granting of consent rights to statutory auditors regarding the reassignment, performance evaluation, disciplinary punishment, etc., of auxiliary employees
- viii. System concerning reports to statutory auditors
  - a. A system that enables the directors and employees of the Company to submit reports to statutory auditors.

The directors and employees of the Company shall report the following items without delay to statutory auditors concerning the execution of their duties.

    - 1) Items concerning important facts that may affect the Company significantly when such facts are found
    - 2) Items concerning acts in violation of laws, regulations or the Articles of Incorporation or acts with such risk when such facts are found
    - 3) Results of internal audits performed by the internal audit division (the Audit Office)

- 4) The operational status for the Whistle-blowing System and the details of reports
- b. A system that enables the Directors, statutory auditors and employees of subsidiaries or individuals who received reports from them to submit reports to the statutory auditors of the Company
- 1) The directors and employees of the Company's subsidiaries shall report acts in violation of laws, regulations or the Articles of Incorporation, acts with such a risk or important facts that may affect the Company significantly to the statutory auditors of the Company without delay when they find such acts or facts.
- 2) The internal audit divisions of the Company's subsidiaries shall report the results of internal audits performed at the subsidiaries to the statutory auditors of the Company.
- ix. System for ensuring the prevention of unfavorable treatment of individuals who submitted reports to statutory auditors for the reason of having submitted such reports
- The Company shall work to establish a system that prevents the unfavorable treatment of individuals who submitted the reports stated in the foregoing paragraph to statutory auditors for the reason for having submitted such reports.
- x. Matters concerning procedures for the advance payment or the refunding of expenses that arise in connection with duty execution by statutory auditors or policies on processing expenses or debts that arise in connection with the execution of other concerned duties
- The Company shall promptly comply with the concerned request when a statutory auditor requests the advance payment of expenses, etc., in connection with the execution of his or her duties unless the requested expenses, etc., could be proven as unnecessary for the execution of the duties by the concerned statutory auditor.
- xi. Other systems for ensuring the effectiveness of audits performed by statutory auditors
- a. Statutory auditors shall meet Representative Directors periodically and exchange opinions with them regarding important audit issues.
- b. Statutory auditors shall meet accounting auditors periodically, to exchange opinions and information with them, and ask them to submit reports as needed.
- c. Statutory auditors shall stay in close cooperation with the internal audit division (the Audit Office). Statutory auditors may ask the internal audit division to perform investigations as needed.
- xii. System for ensuring the reliability of financial reports
- a. The Company shall establish the Internal Control Reporting System for ensuring the reliability of financial reports and submitting internal control reports effectively and appropriately as prescribed in the Financial Instruments and Exchange Act.
- b. The Company shall continually evaluate internal control systems and take the necessary steps in order to correct them in order to ensure the compliance of such systems with the Financial Instruments and Exchange Act, other laws and regulations.
- c. The internal audit division (the Audit Office), as a responsible division, shall implement monitoring, evaluation and assist in improving the operation of internal control systems.
- xiii. Systems for excluding antisocial forces
- a. The Company shall systematically deal with antisocial forces that threaten social order and sound corporate activities with a resolute attitude.
- b. The Company shall deal with antisocial forces in cooperation with police, lawyers and external specialized agencies, such as corporate defense councils, when cases of unreasonable demand by such forces, and the like emerge.

### III) Accounting audit

The Company has chosen Ernst & Young ShinNihon LLC as its accounting auditor. The Company has concluded an audit agreement with Ernst & Young ShinNihon LLC and provided management information from time to time. The statutory auditors of the Company and the accounting auditor have exchanged information as needed and at regular meetings, including those for discussions on the annual audit plan and audit reporting, and have collaborated with each other in audit operations.

The certified public accountants who carried out accountancy service for the Company are Messrs. Naoki Nomoto, Kazunari Tsukada and Eishi Daikoku, who all work for Ernst & Young ShinNihon LLC. Five certified public accountants and 10 other members assisted with the accountancy service.

### IV) Relationships that outside directors and outside statutory auditors have with the Company

Outside Director Takeo Nakagawa is a professor emeritus at the University of Tokyo and the CEO of Fine Tech Corporation. The Company trade products with Fine Tech. Mr. Takeo Nakagawa holds the position of Outside Statutory Auditor of FANUC CORPORATION, which has 327,000 shares in the Company. The Company has 50,000 shares in FANUC. The Company trade products with FANUC. Mr. Takeo Nakagawa is registered as an independent officer with the Tokyo Stock Exchange.

Outside Director Shigeru Nishiyama was Representative Director, CEO of HORAI Co., Ltd. until December 2012. There are no trading relationships between HORAI Co., Ltd. and the Company. Mr. Shigeru Nishiyama was also Deputy President and Representative Director of Sumitomo Mitsui Financial Group, Inc. until June 2008. Sumitomo Mitsui Banking Corporation, a company of the Sumitomo Mitsui Financial Group, is the main financial institution of the Company. Sumitomo Mitsui Banking Corporation has 1,516,000 shares in the Company.

Outside Director Kunio Shimada is a representative partner at Shimada Hamba & Osajima. There are no trading relationships between Shimada Hamba & Osajima and the Company. Mr. Kunio Shimada is registered as an independent officer with the Tokyo Stock Exchange.

Outside Statutory Auditor Morikuni Uchigasaki is Advisor of DMG MORI SEIKI CO., LTD., which has 2.0 million shares in the Company. The Company has 100,000 shares in DMG MORI SEIKI CO., LTD. Mr. Morikuni Uchigasaki is also from Mitsui Banking Corporation, the main financial institution of the Company.

Outside Statutory Auditor Hideo Teramoto is Director, Senior Managing Executive Officer, Chief General Manager for Marketing Promotion of The Dai-ichi Life Insurance Company, Limited which has 2.1 million shares in the Company. The Company has 38,700 shares in The Dai-ichi Life Insurance Company. Mr. Hideo Teramoto is registered as an independent officer with the Tokyo Stock Exchange.

Outside Statutory Auditor Hitoshi Yoshida is President and CEO of TOKYO SEIMITSU CO., LTD., which has 2,592,000 shares in the Company. The Company has 1,033,000 shares in Tokyo Seimitsu. Tokyo Seimitsu and the Company trade products.

In supervising and auditing, the outside directors and outside statutory auditors enhance collaboration with the internal audit division, statutory auditors, independent auditors, and internal control division by asking questions about reports and resolutions and expressing opinions from the perspective of people outside the Company as needed.

### V) Standards and policies for the independence of outside directors and outside statutory auditors from the Company

The Company does not have any clearly defined standards or policies for the independence of outside directors and outside statutory auditors. However, when appointing outside directors and outside statutory auditors, the Company checks their backgrounds and its relationships with them to ensure that each can remain independent and that conflicts of interest that may affect general shareholders are unlikely to occur.

(ii) Compensation paid to Directors and Statutory Auditors

| Post  | Total compensation (million yen) | Breakdown of compensation (million yen) |              |       |                      | Number of officers |
|---|----------------------------------|---|--------------|-------|----------------------|--------------------|
|   |                                  | Basic compensation                      | Stock option | Bonus | Compensation benefit |                    |
| Director (excluding Outside Director)         | 206                              | 155                                     | 51           | --    | --                   | 6                  |
| Statutory Auditor (excluding Outside Auditor) | 33                               | 24                                      | 9            | --    | --                   | 2                  |
| Outside officer                               | 58                               | 45                                      | 12           | --    | --                   | 7                  |

(Note) 1. The above figures include one director and one outside statutory auditor who retired at the close of the 112th annual shareholders meeting held on June 18, 2015.

2. Total amount of compensation for directors does not include salaries for employees concurrently holding a position as director.
3. The maximum amount of compensation for directors was resolved to be not more than cash compensation of 250 million yen per annum by the 109th annual shareholders meeting (excluding salaries for employees). In addition to the above compensation, the maximum amount of compensation associated with subscription rights to shares allocated as stock options for a stock-linked compensation plan was resolved to be not more than 80 million yen per annum by the 109th annual shareholders meeting.
4. The maximum amount of compensation for statutory auditors was resolved to be not more than cash compensation of 60 million yen per annum by the 103rd annual shareholders meeting. In addition to the above compensation, the maximum amount of compensation associated with subscription rights to shares allocated as stock options for a stock-linked compensation plan was resolved to be not more than 20 million yen per annum by the 104th annual shareholders meeting.
5. The upper limit of total compensation for directors is stipulated in a resolution of the shareholders meeting. Compensation for each director is determined in consideration of the importance of the role, responsibilities, and duties of each director. The upper limit of total compensation for statutory auditors is stipulated in a resolution of the shareholders meeting. Compensation for each statutory auditor is determined through consultation among the statutory auditors in consideration of whether they are full-time or part-time auditors and of audit work assigned to each statutory auditor.

(iii) Share holding

a. Number of stocks held for purposes other than pure investment and their balance sheet amounts

21 stocks 4,980 million yen

b. Stocks held for purposes other than pure investment, and their number of shares, balance sheet amount, and purpose

At end of the previous fiscal year

Specific stocks held

| Stock  | Number of shares | Balance sheet amount<br>(million yen) | Purpose                                 |
|--|------------------|---------------------------------------|---|
| Tokyo Seimitsu Co., Ltd.                     | 1,033,000        | 2,844                                 | To strengthen the business relationship |
| FANUC CORPORATION                            | 50,000           | 1,312                                 | To strengthen the business relationship |
| YAMAZEN CORPORATION                          | 500,000          | 493                                   | To strengthen the business relationship |
| YUASA TRADING CO., LTD.                      | 100,000          | 251                                   | To strengthen the business relationship |
| Minebea Co., Ltd                             | 100,000          | 189                                   | To strengthen the business relationship |
| DMG MORI SEIKI CO., LTD.                     | 100,000          | 184                                   | To strengthen the business relationship |
| THK CO., LTD.                                | 59,000           | 180                                   | To strengthen the business relationship |
| The Hachijuni Bank, Ltd.                     | 196,000          | 166                                   | To strengthen the business relationship |
| The Hokuetsu Bank, Ltd.                      | 517,432          | 121                                   | To strengthen the business relationship |
| DAIKIN INDUSTRIES, LTD                       | 13,400           | 107                                   | To strengthen the business relationship |
| The Daishi Bank, Ltd.                        | 241,000          | 101                                   | To strengthen the business relationship |
| Mitsubishi UFJ Financial Group, Inc.         | 134,800          | 100                                   | To strengthen the business relationship |
| The Dai-ichi Life Insurance Company, Limited | 38,700           | 67                                    | To strengthen the business relationship |
| Teikoku Tsushin Kogyo Co., Ltd.              | 80,000           | 19                                    | To strengthen the business relationship |
| TOMITA CO., LTD.                             | 7,961            | 5                                     | To strengthen the business relationship |

At end of the fiscal year under preview

Specific stocks held

| Stock  | Number of shares | Balance sheet amount<br>(million yen) | Purpose                                 |
|--|------------------|---------------------------------------|---|
| Tokyo Seimitsu Co., Ltd.                     | 1,033,000        | 2,279                                 | To strengthen the business relationship |
| FANUC CORPORATION                            | 50,000           | 874                                   | To strengthen the business relationship |
| YAMAZEN CORPORATION                          | 500,000          | 427                                   | To strengthen the business relationship |
| DAIKIN INDUSTRIES, LTD                       | 46,700           | 392                                   | To strengthen the business relationship |
| YUASA TRADING CO., LTD.                      | 100,000          | 264                                   | To strengthen the business relationship |
| THK CO., LTD.                                | 59,000           | 122                                   | To strengthen the business relationship |
| DMG MORI SEIKI CO., LTD.                     | 100,000          | 103                                   | To strengthen the business relationship |
| The Hokuetsu Bank, Ltd.                      | 522,551          | 95                                    | To strengthen the business relationship |
| The Hachijuni Bank, Ltd.                     | 196,000          | 95                                    | To strengthen the business relationship |
| The Daishi Bank, Ltd.                        | 241,000          | 93                                    | To strengthen the business relationship |
| Minebea Co., Ltd                             | 100,000          | 87                                    | To strengthen the business relationship |
| Mitsubishi UFJ Financial Group, Inc.         | 134,800          | 70                                    | To strengthen the business relationship |
| The Dai-ichi Life Insurance Company, Limited | 38,700           | 52                                    | To strengthen the business relationship |
| Teikoku Tsushin Kogyo Co., Ltd.              | 80,000           | 13                                    | To strengthen the business relationship |
| TOMITA CO., LTD.                             | 8,938            | 6                                     | To strengthen the business relationship |



(iv) Outline of contracts for limitation of liability

Under the provision of Article 427, Paragraph 1 of the Companies Act, the Company and the outside directors and outside statutory auditors have concluded contracts to limit liability for damages stipulated in Article 423, Paragraph 1 of the Companies Act.

The minimum liability amount under the contracts is the minimum liability amount specified by laws and ordinances.

(v) Decision-making body of dividends etc.

The Articles of Incorporation of the Company stipulate that the matters specified in each item of Article 459, Paragraph 1 of the Companies Act, including dividends, may be determined not by resolution of a shareholders meeting but by resolution of the Board of Directors, unless otherwise specified in laws and ordinances. This is intended to facilitate the flexible distribution of profits by making the determination of dividends the authority of the Board of Directors.

The Articles of Incorporation also stipulate that interim dividends whose record date is September 30 of each year can be paid through a resolution of the Board of Directors.

(vi) Number of directors

The Articles of Incorporation stipulate that the number of the Company's directors is ten at maximum.

(vii) Requirements for a resolution to elect directors

The Articles of Incorporation stipulate that a resolution of a shareholders meeting to elect directors shall be made by a majority of the votes of the shareholders present at a meeting where shareholders holding one third or more of the votes of shareholders who are entitled to exercise their votes are present. The Articles of Incorporation also stipulate that cumulative votes shall not be cast for a resolution to elect directors.

(viii) Requirements for a special resolution in shareholders meeting

To ensure that a quorum is constituted for a special resolution in a shareholders meeting, the Articles of Incorporation stipulate that the resolutions specified in Article 309, Paragraph 2 of the Companies Act shall be made by a majority of two-thirds of the votes of the shareholders present at a meeting where shareholders holding a majority of one-third of the votes of the shareholders entitled to exercise their votes are present.

(2) Audit fees

(i) Breakdown of compensation to auditing certified public accountants

| Classification            | Previous fiscal year                                    |   | Fiscal year under review                                |   |
|---------------------------|---|---|---|---|
|                           | Compensation for audit certification work (million yen) | Compensation for non-audit work (million yen) | Compensation for audit certification work (million yen) | Compensation for non-audit work (million yen) |
| Submitting company        | 33  | 1   | 33  | 3   |
| Consolidated subsidiaries | --  | --  | --  | --  |
| Total                     | 33  | 1   | 33  | 3   |

(ii) Other important compensation

Previous consolidated fiscal year (from April 1, 2014 to March 31, 2015)

PRECISION TSUGAMI (CHINA) CORPORATION, a consolidated subsidiary, signed agreements for audit certification work and outsourcing of accounting audit and internal governance support in relation to listing on stock markets in Asia with Ernst & Young Hua Ming Certified Public Accountants, which belongs to the same network as the accounting auditor for the Company. Fees payable in relation to the two agreements is 71 million yen.

Consolidated fiscal year under review (from April 1, 2015 to March 31, 2016)

PRECISION TSUGAMI (CHINA) CORPORATION, a consolidated subsidiary, signed agreements for audit certification work and outsourcing of accounting audit and internal governance support in relation to listing on stock markets in Asia with Ernst & Young Hua Ming Certified Public Accountants, which belongs to the same network as the accounting auditor for the Company. Fees payable in relation to the two agreements is 19 million yen.

(iii) Non-audit work of auditing certified public accountants for the submitting company

Previous consolidated fiscal year (from April 1, 2014 to March 31, 2015)

The Company paid fees to the accounting auditor for its work to support the IPO of its subsidiary PRECISION TSUGAMI (CHINA) CORPORATION.

Consolidated fiscal year under review (from April 1, 2015 to March 31, 2016)

The Company paid fees to the accounting auditor for its work to support the IPO of its subsidiary PRECISION TSUGAMI (CHINA) CORPORATION, a study of the impact of the introduction of the IFRS (International Financial Reporting Standards), and assistance for responding to revisions to regulations related to the Companies Act and disclosure documents.

(iv) Policy for determining audit fees

Not applicable.

## Section 5. Financial Status

### 1. Preparation of consolidated financial statements and non-consolidated financial statements

(1) The Company's consolidated financial statements are prepared under the Regulations Concerning Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ministry of Finance Ordinance No. 28 of 1976).

(2) The Company's non-consolidated financial statements are prepared under the Regulations Concerning Terminology, Forms, and Preparation Methods of Financial Statements (Ministry of Finance Ordinance No. 59 of 1963; hereinafter the "Regulations for non-consolidated Financial Statements").

The company is required to submit special-purpose financial statements. Therefore, the non-consolidated financial statements are prepared in accordance with Article 127 of "Regulations for non-consolidated Financial Statements".

### 2. Audit certification

Under the provision of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act, the consolidated financial statements for the fiscal year under review (from April 1, 2015 to March 31, 2016) and the financial statements for the 113th fiscal year (from April 1, 2015 to March 31, 2016) were audited by Ernst & Young ShinNihon LLC.

### 3. Special efforts to ensure the adequacy of consolidated financial statements

The Company is making special efforts to ensure the adequacy of consolidated financial statements. Specifically, to establish a system to obtain information on accounting standards properly and to respond to changes in accounting standards appropriately, the Company has become a member of the Financial Accounting Standards Foundation and obtains new information from time to time. The Company also participates in training programs of the Financial Accounting Standards Foundation and other organizations.

1. Consolidated Financial Statements, etc.

(1) Consolidated financial statements

(i) Consolidated balance sheets

|   | (Million yen)   |   |
|---|---|---|
|   | Figures at the end of the<br>previous consolidated fiscal<br>year<br>(As of March 31, 2015) | Figures at the end of the<br>consolidated fiscal year under<br>review<br>(As of March 31, 2016) |
| <b>Assets</b>   |   |   |
| Current assets  |   |   |
| Cash and deposits                                     | 5,175   | 4,744   |
| Trade notes and accounts receivable                   | 7,054   | 5,862   |
| Merchandise and finished goods                        | 8,264   | 8,035   |
| Work in process                                       | 5,684   | 3,800   |
| Raw materials and supplies                            | 8,750   | 6,463   |
| Consumption taxes receivable                          | 1,017   | 781   |
| Deferred tax assets                                   | 443   | 489   |
| Other   | 513   | 509   |
| Allowance for doubtful accounts                       | -43   | -47   |
| Total current assets                                  | 36,861  | 30,639  |
| Non-current assets                                    |   |   |
| Property, plant and equipment                         |   |   |
| Buildings and structures                              | 11,564  | 10,759  |
| Accumulated depreciation                              | -5,167  | -5,134  |
| Buildings and structures (net)                        | 6,396   | 5,625   |
| Machinery, equipment and vehicles                     | 10,067  | 9,790   |
| Accumulated depreciation                              | -5,895  | -6,243  |
| Machinery, equipment and vehicles (net)               | 4,171   | 3,547   |
| Land  | 564   | 473   |
| Leased assets   | 55  | 38  |
| Accumulated depreciation                              | -27   | -18   |
| Leased assets (net)                                   | 27  | 19  |
| Construction in progress                              | 3   | 0   |
| Other   | 1,243   | 1,145   |
| Accumulated depreciation                              | -956  | -905  |
| Other (net)   | 287   | 240   |
| Total property, plant and equipment                   | 11,451  | 9,906   |
| Intangible assets                                     | 756   | 698   |
| Investments and other assets                          |   |   |
| Investment securities                                 | 6,148   | 4,980   |
| Shares of subsidiaries and associates                 | 11  | 11  |
| Investments in capital of subsidiaries and associates | 1,131   | 893   |
| Long-term loans receivable                            | 316   | 583   |
| Deferred tax assets                                   | 1   | 2   |
| Other   | *2 149  | *2 143  |
| Total investments and other assets                    | 7,759   | 6,614   |
| Total non-current assets                              | 19,967  | 17,219  |
| Deferred assets                                       |   |   |
| Stock issuance cost                                   | 0   | --  |
| Total deferred assets                                 | 0   | --  |
| Total assets  | 56,829  | 47,859  |

(Million yen)

|   | Figures at the end of the<br>previous consolidated fiscal<br>year<br>(As of March 31, 2015) | Figures at the end of the<br>consolidated fiscal year under<br>review<br>(As of March 31, 2016) |
|---|---|---|
| Liabilities   |   |   |
| Current liabilities                                   |   |   |
| Trade notes and accounts payable                      | 8,276   | 5,857   |
| Short-term loans payable                              | 6,855   | 6,127   |
| Income taxes payable                                  | 616   | 267   |
| Provision for bonuses                                 | 227   | 205   |
| Advances received                                     | 545   | 542   |
| Provision for product warranties                      | 448   | 324   |
| Other   | 882   | 659   |
| Total current liabilities                             | 17,851  | 13,983  |
| Non-current liabilities                               |   |   |
| Deferred tax liabilities                              | 1,084   | 511   |
| Provision for directors' retirement benefits          | 18  | 16  |
| Net defined benefit liability                         | 535   | 703   |
| Other   | 58  | 50  |
| Total non-current liabilities                         | 1,698   | 1,281   |
| Total liabilities                                     | 19,550  | 15,265  |
| Net assets  |   |   |
| Shareholders' equity                                  |   |   |
| Capital stock   | 12,345  | 12,345  |
| Capital surplus                                       | 5,889   | 5,884   |
| Retained earnings                                     | 15,963  | 15,653  |
| Treasury stock  | -2,738  | -4,837  |
| Total shareholders' equity                            | 31,460  | 29,045  |
| Accumulated other comprehensive income                |   |   |
| Valuation difference on available-for-sale securities | 2,798   | 1,779   |
| Foreign currency translation adjustment               | 2,123   | 991   |
| Remeasurements of defined benefit plans               | 32  | -123  |
| Total accumulated other comprehensive income          | 4,953   | 2,647   |
| Subscription rights to shares                         | 865   | 900   |
| Total net assets                                      | 37,279  | 32,594  |
| Total liabilities and net assets                      | 56,829  | 47,859  |

(ii) Consolidated statements of income and comprehensive income

Consolidated statements of income

|  | (Million yen)   |   |
|--|---|---|
|  | Previous consolidated<br>fiscal year<br>(From April 1, 2014 to<br>March 31, 2015) | Consolidated fiscal year<br>under review<br>(From April 1, 2015 to<br>March 31, 2016) |
| Net sales  | 54,132  | 40,132  |
| Cost of sales  | *1 39,890   | *1 31,164   |
| Gross profit   | 14,241  | 8,968   |
| Selling, general and administrative expenses                               |   |   |
| Salaries and allowances  | 1,585   | 1,630   |
| Provision for bonuses  | 57  | 74  |
| Retirement benefit expenses  | 79  | 49  |
| Provision for directors' retirement benefits                               | 4   | 4   |
| Research and development expenses  | *2 1,278  | *2 1,187  |
| Insurance expenses   | 177   | 178   |
| Provision of allowance for doubtful accounts                               | --  | 5   |
| Provision for product warranties   | 465   | 431   |
| Other  | 3,338   | 3,281   |
| Total selling, general and administrative expenses                         | 6,988   | 6,843   |
| Operating income   | 7,253   | 2,125   |
| Non-operating income   |   |   |
| Interest income  | 24  | 21  |
| Dividend income  | 84  | 148   |
| Rent income  | 46  | 51  |
| Foreign exchange gains   | 1,071   | --  |
| Reversal of allowance for doubtful accounts                                | 32  | --  |
| Insurance income   | 34  | 43  |
| Other  | 68  | 56  |
| Total non-operating income   | 1,360   | 322   |
| Non-operating expenses   |   |   |
| Interest expenses  | 273   | 262   |
| Loss on sales of notes payable   | 143   | 148   |
| Foreign exchange losses  | --  | 709   |
| Share of loss of entities accounted for using equity method                | --  | 37  |
| Other  | 452   | 195   |
| Total non-operating expenses   | 869   | 1,352   |
| Ordinary income  | 7,745   | 1,095   |
| Extraordinary income   |   |   |
| Gain on sales of non-current assets  | *3 25   | *3 4  |
| Gain on sales of investments securities                                    | 2   | 2   |
| Gain on reversal of subscription rights to shares                          | --  | 49  |
| Subsidy income   | 37  | 187   |
| Total extraordinary income   | 65  | 243   |
| Extraordinary losses   |   |   |
| Loss on retirement of non-current assets                                   | *4 19   | *4 0  |
| Loss on sales of non-current assets  | *5 31   | *5 14   |
| Impairment loss  | *6 60   | *6 111  |
| Loss on valuation of investments in capital of subsidiaries and associates | --  | 21  |
| Loss on liquidation of business  | 16  | --  |
| Total extraordinary losses   | 129   | 148   |
| Income before taxes and other adjustments                                  | 7,681   | 1,190   |
| Corporate, inhabitant and enterprise taxes                                 | 2,126   | 418   |
| Deferred taxes   | 258   | -105  |
| Total corporate and other taxes  | 2,384   | 313   |
| Net income   | 5,297   | 877   |
| Net income attributable to non-controlling interests                       | --  | --  |
| Net income attributable to owners of parent                                | 5,297   | 877   |

Consolidated Statements of Comprehensive Income

(Million yen)

|  | Previous consolidated fiscal<br>year<br>(From April 1, 2014 to<br>March 31, 2015) | Consolidated fiscal year<br>under review<br>(From April 1, 2015 to<br>March 31, 2016) |
|--|---|---|
| Net income   | 5,297   | 877   |
| Other comprehensive income   |   |   |
| Valuation difference on available-for-sale securities                                | 1,406   | -1,018  |
| Foreign currency translation adjustment  | 988   | -1,033  |
| Remeasurements of defined benefit plans, net of tax                                  | 156   | -156  |
| Share of other comprehensive income of entities accounted for<br>using equity method | --  | -98   |
| Total other comprehensive income   | * 2,551   | * -2,305  |
| Comprehensive income   | 7,848   | -1,428  |
| (Breakdown)  |   |   |
| Comprehensive income attributable to owners of parent                                | 7,848   | -1,428  |
| Comprehensive income attributable to non-controlling interests                       | --  | --  |

(iii) Consolidated statements of changes in net assets

Previous consolidated fiscal year (from April 1, 2014 to March 31, 2015)

(Million yen)

|   | Shareholders' equity |                 |                   |                |                            |
|---|----------------------|-----------------|-------------------|----------------|----------------------------|
|   | Common stock         | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance as of April 1, 2014   | 12,345               | 5,889           | 11,424            | -1,079         | 28,579                     |
| Cumulative effects of changes in accounting policies                          |                      |                 | 108               |                | 108                        |
| Restated balance  | 12,345               | 5,889           | 11,533            | -1,079         | 28,688                     |
| Change during the fiscal year   |                      |                 |                   |                |                            |
| Cash dividends paid   |                      |                 | -866              |                | -866                       |
| Net income attributable to owners of parent                                   |                      |                 | 5,297             |                | 5,297                      |
| Change of scope of equity method  |                      |                 |                   |                |                            |
| Purchase of treasury stock  |                      |                 |                   | -1,848         | -1,848                     |
| Disposal of treasury stock  |                      | 0               |                   | 189            | 189                        |
| Other   |                      |                 |                   |                |                            |
| Changes in items other than shareholders' equity during the fiscal year (net) |                      |                 |                   |                |                            |
| Total change during the fiscal year   | --                   | 0               | 4,430             | -1,658         | 2,771                      |
| Balance as of March 31, 2015  | 12,345               | 5,889           | 15,963            | -2,738         | 31,460                     |

|   | Accumulated other comprehensive income                |   |   |  | Subscription rights to shares | Total net assets |
|---|---|---|---|--|-------------------------------|------------------|
|   | Valuation difference on available-for-sale securities | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Total accumulated other comprehensive income |                               |                  |
| Balance as of April 1, 2014   | 1,391   | 1,134                                   | -123                                    | 2,401  | 605                           | 31,587           |
| Cumulative effects of changes in accounting policies                          |   |   |   |  |                               | 108              |
| Restated balance  | 1,391   | 1,134                                   | -123                                    | 2,401  | 605                           | 31,696           |
| Change during the fiscal year   |   |   |   |  |                               |                  |
| Cash dividends paid   |   |   |   |  |                               | -866             |
| Net income attributable to owners of parent                                   |   |   |   |  |                               | 5,297            |
| Change of scope of equity method  |   |   |   |  |                               |                  |
| Purchase of treasury stock  |   |   |   |  |                               | -1,848           |
| Disposal of treasury stock  |   |   |   |  |                               | 189              |
| Other   |   |   |   |  |                               |                  |
| Changes in items other than shareholders' equity during the fiscal year (net) | 1,406   | 988                                     | 156                                     | 2,551  | 259                           | 2,811            |
| Total change during the fiscal year   | 1,406   | 988                                     | 156                                     | 2,551  | 259                           | 5,583            |
| Balance as of March 31, 2015  | 2,798   | 2,123                                   | 32                                      | 4,953  | 865                           | 37,279           |



Consolidated fiscal year under review (from April 1, 2015 to March 31, 2016)

(Million yen)

|   | Shareholders' equity |                 |                   |                |                            |
|---|----------------------|-----------------|-------------------|----------------|----------------------------|
|   | Common stock         | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance as of April 1, 2015   | 12,345               | 5,889           | 15,963            | -2,738         | 31,460                     |
| Cumulative effects of changes in accounting policies                          |                      |                 |                   |                |                            |
| Restated balance  | 12,345               | 5,889           | 15,963            | -2,738         | 31,460                     |
| Change during the fiscal year   |                      |                 |                   |                |                            |
| Cash dividends paid   |                      |                 | -1,092            |                | -1,092                     |
| Net income attributable to owners of parent                                   |                      |                 | 877               |                | 877                        |
| Change of scope of equity method  |                      |                 | -79               |                | -79                        |
| Purchase of treasury stock  |                      |                 |                   | -2,238         | -2,238                     |
| Disposal of treasury stock  |                      | -5              | -15               | 140            | 118                        |
| Other   |                      |                 | -0                |                | -0                         |
| Changes in items other than shareholders' equity during the fiscal year (net) |                      |                 |                   |                |                            |
| Total change during the fiscal year   | --                   | -5              | -309              | -2,098         | -2,414                     |
| Balance as of March 31, 2016  | 12,345               | 5,884           | 15,653            | -4,837         | 29,045                     |

|   | Accumulated other comprehensive income                |   |   |  | Subscription rights to shares | Total net assets |
|---|---|---|---|--|-------------------------------|------------------|
|   | Valuation difference on available-for-sale securities | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Total accumulated other comprehensive income |                               |                  |
| Balance as of April 1, 2015   | 2,798   | 2,123                                   | 32                                      | 4,953  | 865                           | 37,279           |
| Cumulative effects of changes in accounting policies                          |   |   |   |  |                               |                  |
| Restated balance  | 2,798   | 2,123                                   | 32                                      | 4,953  | 865                           | 37,279           |
| Change during the fiscal year   |   |   |   |  |                               |                  |
| Cash dividends paid   |   |   |   |  |                               | -1,092           |
| Net income attributable to owners of parent                                   |   |   |   |  |                               | 877              |
| Change of scope of equity method  |   |   |   |  |                               | -79              |
| Purchase of treasury stock  |   |   |   |  |                               | -2,238           |
| Disposal of treasury stock  |   |   |   |  |                               | 118              |
| Other   |   |   |   |  |                               | -0               |
| Changes in items other than shareholders' equity during the fiscal year (net) | -1,018  | -1,131                                  | -156                                    | -2,305                                       | 35                            | -2,270           |
| Total change during the fiscal year   | -1,018  | -1,131                                  | -156                                    | -2,305                                       | 35                            | -4,684           |
| Balance as of March 31, 2016  | 1,779   | 991                                     | -123                                    | 2,647  | 900                           | 32,594           |

(iv) Consolidated statements of cash flows

(Million yen)

|  | Previous consolidated<br>fiscal year<br>(From April 1, 2014<br>to March 31, 2015) | Consolidated fiscal year<br>under review<br>(From April 1, 2015<br>to March 31, 2016) |
|--|---|---|
| Cash flows from operating activities                                       |   |   |
| Net income (loss) before taxes and other adjustments                       | 7,681   | 1,190   |
| Depreciation and amortization  | 1,160   | 1,092   |
| Loss on valuation of investments in capital of subsidiaries and associates | --  | 21  |
| Gain on reversal of subscription rights to shares                          | --  | -49   |
| Share-based compensation expenses  | 315   | 177   |
| Impairment loss  | 60  | 111   |
| Subsidy income   | -37   | -187  |
| Increase (decrease) in allowance for doubtful accounts                     | -54   | 5   |
| Increase (decrease) in provision for bonuses                               | -19   | -22   |
| Increase (decrease) in provision for product warranties                    | 150   | -97   |
| Increase (decrease) in net defined benefit liability                       | -138  | -67   |
| Interest and dividend income   | -108  | -170  |
| Interest expenses  | 273   | 262   |
| Share of (profit) loss of entities accounted for using equity method       | --  | 37  |
| Loss (gain) on sales of investment securities                              | -2  | -2  |
| Loss on retirement of non-current assets                                   | 19  | 0   |
| Loss (gain) on sales of non-current assets                                 | 5   | 10  |
| Foreign exchange losses (gains)  | -756  | 229   |
| Decrease (increase) in trade notes and accounts receivable                 | 115   | 940   |
| Decrease (increase) in inventories   | 114   | 2,890   |
| Decrease (increase) in advance payments                                    | 28  | 57  |
| Increase (decrease) in trade notes and accounts payable                    | -3,565  | -1,765  |
| Increase (decrease) in advances received                                   | 149   | 253   |
| Decrease (increase) in consumption taxes refund receivable                 | -90   | 236   |
| Other  | 276   | -47   |
| Sub total  | 5,581   | 5,106   |
| Interest and dividend income received                                      | 94  | 146   |
| Interest expenses paid   | -294  | -226  |
| Proceeds from subsidy  | 37  | 187   |
| Corporate and other taxes paid   | -2,283  | -987  |
| Cash flows from operating activities                                       | 3,135   | 4,226   |
| Cash flows from investing activities                                       |   |   |
| Payments into time deposits  | -280  | -375  |
| Proceeds from withdrawal of time deposits                                  | 256   | 425   |
| Purchase of property, plant and equipment                                  | -1,011  | -449  |
| Proceeds from sales of property, plant and equipment                       | 74  | 117   |
| Purchase of intangible assets  | -434  | -47   |
| Expenditure for acquisition of investment securities                       | -1  | -301  |
| Proceeds from sales of investment securities                               | 2   | 2   |
| Payments of long-term loans receivable                                     | -315  | -333  |
| Other  | 3   | 2   |
| Cash flows from investing activities                                       | -1,706  | -959  |
| Cash flows from financing activities                                       |   |   |
| Increase in short-term loans payable                                       | 7,457   | 2,961   |
| Decrease in short-term loans payable                                       | -7,683  | -3,174  |
| Proceeds from sales of treasury stock                                      | 133   | 35  |
| Purchase of treasury stock   | -1,850  | -2,241  |
| Cash dividends paid  | -866  | -1,092  |
| Repayments of lease obligations  | -11   | -9  |
| Other  | -0  | --  |
| Cash flows from financing activities                                       | -2,822  | -3,520  |
| Effect of exchange rate change on cash and cash equivalents                | 300   | -110  |
| Net increase (decrease) in cash and cash equivalents                       | -1,092  | -362  |
| Cash and cash equivalents at the beginning of the term                     | 6,044   | 4,952   |
| Cash and cash equivalents at the end of the term                           | * 4,952   | * 4,589   |

## Notes

### Important Matters that Become Basis of Presenting Consolidated Financial Statements

#### 1. Scope of consolidation

(1) Number of consolidated subsidiaries: 7

Names of consolidated subsidiaries

TSUGAMI MACHINERY CO., LTD.  
TSUGAMI GENERAL SERVICE CO., LTD.  
PRECISION TSUGAMI (CHINA) CORPORATION  
Shinagawa Precision Machinery (Zhejiang) Co., Ltd.  
TSUGAMI KOREA Co., Ltd.  
Precision Tsugami (China) Corporation Limited  
Precision Tsugami (Hong Kong) Limited

(2) Names of non-consolidated subsidiaries:

Non-consolidated subsidiaries:

TSUGAMI (THAI) CO., LTD.  
TSUGAMI EUROPE GmbH  
TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED  
TSUGAMI TECH SOLUTIONS INDIA PRIVATE LIMITED  
TSUGAMI Universal Pte. Ltd.

(Reason for non-consolidation)

The non-consolidated subsidiaries are small in size, and their total assets, sales, net income or loss (amounts to equivalent to the equity holding) and retained earnings (amounts to equivalent to the equity holding) do not have significant material effect on the consolidated financial statements.

#### 2. Application of equity method

(1) Non-consolidated subsidiaries or affiliates accounted for by the equity method : 1

TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED

Starting the fiscal year under review, TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED is included in the scope of equity method application, because its significance has increased.

(2) The non-consolidated subsidiaries (TSUGAMI (THAI) CO., LTD., TSUGAMI EUROPE GmbH, TSUGAMI TECH SOLUTIONS INDIA PRIVATE LIMITED and TSUGAMI Universal Pte. Ltd.) as well as the affiliate (REM SALES LLC), have little material effect on the consolidated net income or loss and the consolidated retained earnings, and further, have small significance in the Group as a whole.

For the above reason, the equity method is not applied on these companies.

#### 3. Matters Concerning Fiscal year of consolidated subsidiaries, etc.

Among the consolidated subsidiaries, the balance sheet date of PRECISION TSUGAMI (CHINA) CORPORATION, Shinagawa Precision Machinery (Zhejiang) Co., Ltd. and Precision Tsugami (Hong Kong) Limited are December 31.

In preparing the consolidated financial statements, financial statements based on provisional calculations made as of the consolidated closing date were utilized in connection with this company.

#### 4. Matters concerning significant accounting policies

##### (1) Valuation standard and valuation method of major assets

###### (i) Securities

###### Other securities

###### Securities with fair market value:

Market value method based on the quoted market value on the closing date of the fiscal year (Valuation differences are directly charged or credited to shareholders' equity, and the cost of securities sold is calculated using the moving-average method.)

###### Securities without fair market value:

Cost accounting method using the moving average method

###### (ii) Derivatives

Market value method

###### (iii) Inventories:

Primarily cost accounting method using the moving average method (The values in the consolidated balance sheet were calculated using the book-value write-down method based on the decline of profitability.).

##### (2) Depreciation and amortization methods used for material depreciable and amortizable assets

###### (i) Property, plant and equipment (excluding leased assets)

Depreciation is principally computed by the declining-balance method.

However, buildings acquired on or after April 1, 1998, excluding fittings, equipment, and foreign subsidiary, are depreciated on a straight-line basis.

The significant service lives are summarized as follows:

Buildings and structures: 15-38 years

Machinery and transportation vehicle: 9 year

###### (ii) Intangible assets (excluding leased assets)

Intangible assets are amortized using the straight-line method.

However, software for in-house use is amortized on a straight-line basis over the expected usable period, up to five years.

###### (iii) Leased assets

Depreciation for leased assets is computed using the straight-line method over the lease terms as service life, assuming no residual value.

##### (3) Accounting standards for major deferred assets

###### Stock issuance cost

This is amortized using the straight-line method (3 years).

##### (4) Accounting standards for significant allowances

###### (i) Allowance for doubtful accounts

To provide for a loss on doubtful accounts, general allowances are provided using a rate determined by past experience with bad debts. Specific allowances are provided for the estimated amounts considered to be uncollectible after reviewing the individual collectibility of certain doubtful accounts.

###### (ii) Allowance for employees' bonuses

To provide for the payment of employees' bonuses, the Company and its domestic subsidiaries provide accrued bonuses for employees based on the projected amount for the current consolidated fiscal year.

###### (iii) Allowance for directors' retirement benefits

Certain of the Company's consolidated subsidiaries recorded an allowance for retirement benefits for directors equivalent to the amount payable in accordance with their rules for directors' retirement benefits.

(iv) Allowance for product warranties

To provide for expenses for repair cost that arise in the after-sales free-repair warranty period, the Company accrues repair expenses using an amount projected based on the past ratio of repairs.

(5) Accounting policies for retirement benefits

(i) Period attribution method of the expected amount of retirement benefits

As a method of attributing the expected amount of retirement benefits to the period before the end of the consolidated fiscal year under review to calculate retirement benefit obligations, we use the projected benefit method.

(ii) Method of expensing net retirement benefit obligation at transition and actuarial gains and losses

Any actuarial difference is expensed equally from the fiscal year following its accrual over an average remaining service period (5 years) of employees at the time of the accrual using the straight-line method.

(iii) Accounting method of unrecognized actuarial gain or loss and unrecognized prior service cost

Unrecognized actuarial gains and losses and unrecognized prior service costs after tax are recorded as remeasurements of defined benefit plans in the net assets section as a component of accumulated other comprehensive income.

(6) Accounting standards for translating significant assets or liabilities in foreign currencies into yen

Monetary assets and liabilities denominated in foreign currencies are translated into yen at spot exchange rates at the consolidated closing date. Foreign currency translation adjustment are accounted for as gains or losses. Assets, liabilities, revenues, and expenses at overseas subsidiaries are translated into yen at spot exchange rates at the consolidated closing date. Foreign currency translation adjustment are included in "Foreign currency translation adjustment" in net assets.

(7) Significant hedge accounting method

(i) Hedge accounting method

Deferred hedge accounting was adopted. In addition, a method for translating foreign currency receivables and payables based on yen-value cash flows fixed by forward contracts was adopted for hedging the risk of exchange rate fluctuations in cases where requirements for using the method were fulfilled.

(ii) Hedging instrument and hedged item

Hedge accounting was applied to the following hedging instrument and hedged item during the consolidated fiscal year under review.

Hedging instrument: exchange contracts

Hedged item: foreign currency receivables

(iii) Hedging policy

Hedging was performed within the scope of subject receivables for avoiding the risk of exchange rate fluctuations and establishing profit/loss.

(iv) Method for assessing hedging effectiveness

An assessment of hedging effectiveness is omitted because the hedging instrument and an important requirement for the hedged item are the same and hedging is assumed to completely offset market fluctuations at the point of its launch and in the subsequent period.

(8) Scope of Funds in Consolidated Cash Flow Statements

Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with a maturity of three months or less at the date of acquisition that can easily be converted into cash and that have only minor risks of changes in value.

(9) Other important matters for the preparation of consolidated financial statements

Accounting method for consumption taxes

The tax-exclusion method is used for the calculation of consumption tax and local consumption tax, and non-deductible consumption tax and local consumption tax are accounted as expenses.

(Changes in accounting policies)

(Application of Accounting Standard for Business Combinations)

From the consolidated fiscal year under review, the Company is applying the Accounting Standard for Business Combinations (ASBJ Statement No. 21; September 13, 2013), the Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22; September 13, 2013), and the Accounting Standard for Business Divestitures (ASBJ Statement No. 7; September 13, 2013). Under the newly-applied accounting standards, the Company shall post a gain or loss on change in the Company's equity in subsidiaries that the Company continues to control in capital surplus and shall post expenses related to acquisitions as expenses in a consolidated fiscal year when they are incurred. Any review of the allocation of the acquisition cost in provisional accounting of a business combination from the beginning of the consolidated fiscal year under review shall be reflected in consolidated financial statements for the half in which the date of the business combination belongs. The presentation of net income etc. has also been changed, and the presentation has been changed from minority interests in income to non-controlling interests. To reflect the change in presentation, the consolidated financial statements of the previous fiscal year have been reorganized.

In the consolidated statement of cash flows for the consolidated fiscal year under review, cash flows relating to the acquisition or sale of shares in subsidiaries without change in the scope of consolidation are listed under "cash flows from financing activities". Cash flows relating to expenses associated with the acquisition of shares in subsidiaries without any change to the scope of consolidation, and expenses incurred in relation to the acquisition or sale of subsidiaries without any change in the scope of consolidation, are listed under "cash flows from operating activities."

The application of the Accounting Standard for Business Combinations, etc. follows the transitional treatment set force in Paragraph 58-2 (4) of the Accounting Standard for Business Combinations, Paragraph 44-5 (4) of the Accounting Standard for Consolidated Financial Statements, and Paragraph 57-4 (4) of the Accounting Standard for Business Divestitures, and the accounting standards are applied from the beginning of the consolidated fiscal year under review.

The application of the accounting standards has no impact on the Consolidated Financial Statements and Per Share information.

(Unapplied accounting standards, etc.)

Implementation Guidance on Recoverability of Deferred Tax Asset (ASBJ Guidance No.26; March 28, 2016)

(1) Outline

The Accounting Standards Board of Japan (ASBJ) essentially continues to apply the accounting practice guidelines and auditing practice guidelines (parts related to accounting treatments) on tax effect accounting of The Japanese Institute of Certified Public Accountants (JICPA). The Implementation Guidance on Recoverability of Deferred Tax Assets essentially continues to apply the framework used in the practice guidelines, primarily the guidelines on the recoverability of deferred tax assets specified in the JICPA Auditing Guidance No. 66, Auditing Treatment for Judgment of Recoverability of Deferred Tax Assets, a framework where the amounts of deferred tax assets to be posted are estimated based on five categories into which entities are classified, but certain forms of accounting treatment have been changed in relation to the criteria for the categories of entities and the amounts of deferred tax assets to be posted. The Implementation Guidance on Recoverability of Deferred Tax Assets prescribes guidelines for applying the accounting standards on tax effect accounting (Business Accounting Council) to the recoverability of deferred tax assets.

(Accounting treatment have been changed)

- i. Treatment of companies that do not fulfill either of the requirements for classification from Category 1 through Category 5.
- ii. Requirements for classification as Category 2 and Category 3
- iii. Treatment of future deductible temporary differences that cannot be scheduled for companies applicable to Category 2
- iv. Treatment of concerning the period in which a reasonable estimate is possible for the taxable income before adjustments including future temporary differences for companies applicable to Category 3
- v. Treatment in cases where a company fulfilling the requirements of Category 4 is also applicable to Category 2 or Category 3

(2) Scheduled effective date

The implementation guideline will be applied from the beginning of the consolidated fiscal year starting on April 1, 2016.

(3) Effect of applying the accounting standards etc.

The effect of applying the Implementation Guidance on Recoverability of Deferred Tax Assets on the consolidated financial statements is still being assessed.

(Changes in Method of Presentation)

(Consolidated Balance Sheets)

"Advances received" which had been included in "Other" of the current liabilities in the previous consolidated fiscal year, was posted as a separate item in the consolidated fiscal year under review because of an increase in its importance in terms of the amount. To reflect the change in the method of presentation, the Group changed the consolidated financial statements for the previous consolidated fiscal year.

As a result, "Other" of 1,427 million yen in the current liabilities in the consolidated balance sheets for the previous consolidated fiscal year was divided into "Advances received" of 545 million yen and "Other" of 882 million yen.

(Consolidated Statements of Income)

"Rent income" which had been included in "Other" of the non-operating income in the previous consolidated fiscal year, was posted as a separate item in the consolidated fiscal year under review because of an increase in its importance in terms of the amount. To reflect the change in the method of presentation, the Group changed the consolidated financial statements for the previous consolidated fiscal year.

As a result, "Other" of 114 million yen in the non-operating income in the consolidated statements of income for the previous consolidated fiscal year was divided into "Rent income" of 46 million yen and "Other" of 68 million yen.

"Payment fee" had been posted as a separate item in the previous consolidated fiscal year, was included in "Other" of the non-operating expenses in the consolidated fiscal year under review because of the amount decrease in its importance in terms of the amount. To reflect the changes in the method of presentation, the Group changed the consolidated financial statements for the previous consolidated fiscal year.

As a result, "Payment fee" of 313 million yen in the non-operating expenses in the consolidated statements of income for the previous consolidated fiscal year was include in "Other".

(Consolidated Statements of Cash Flows)

"Expenditure for acquisition of investment securities" which had been included in "Other" of the cash flows from investing activities in the previous consolidated fiscal year, were posted as a separate item in the consolidated fiscal year under review because of an increase in its importance in terms of the amount. To reflect the change in the method of presentation, the Group changed the consolidated financial statements for the previous consolidated fiscal year.

As a result, "Other" of 1 million yen in the cash flows from investing activities in the consolidated statements of cash flows for the previous consolidated fiscal year was divided into "Expenditure for acquisition of investment securities" of minus 1 million yen and "Other" of 3 million yen.

(Consolidated Balance Sheet)

1. Amount of discount for bills receivable (Million yen)

|  | Previous consolidated fiscal year<br>(As of March 31, 2015) | Consolidated fiscal year under review<br>(As of March 31, 2016) |
|--|---|---|
| Amount of discount for bills receivable        | 985   | 1,395   |
| Amount of discount for export bills receivable | 2,269   | 2,128   |

\*2.Amount of allowance for doubtful accounts directly subtracted from assets (Million yen)

|                              | Previous consolidated fiscal year<br>(As of March 31, 2015) | Consolidated fiscal year under review<br>(As of March 31, 2016) |
|------------------------------|---|---|
| Investments and other assets | 1   | 2   |

(Consolidated Statement of Income)

\*1. Reductions in book value associated with declines in the profitability of inventories owned for ordinary sales (Million yen)

|               | Previous consolidated fiscal year<br>(from April 1, 2014 to March 31, 2015) | Consolidated fiscal year under review<br>(from April 1, 2015 to March 31, 2016) |
|---------------|---|---|
| Cost of sales | 16  | 366   |

\*2.R&D expenses included in selling, general and administrative expenses, and manufacturing cost for the term (Million yen)

|  | Previous consolidated fiscal year<br>(from April 1, 2014 to March 31, 2015) | Consolidated fiscal year under review<br>(from April 1, 2015 to March 31, 2016) |
|--|---|---|
|  | 1,278   | 1,187   |

\*3.Breakdown of gain on sales of non-current assets (Million yen)

|                         | Previous consolidated fiscal year<br>(from April 1, 2014 to March 31, 2015) | Consolidated fiscal year under review<br>(from April 1, 2015 to March 31, 2016) |
|-------------------------|---|---|
| Machinery and equipment | 25  | 3   |
| Vehicles                | --  | 0   |
| Others                  | --  | 0   |
| Total                   | 25  | 4   |

\*4. Breakdown of loss on retirement of non-current assets (Million yen)

|                         | Previous consolidated fiscal year<br>(from April 1, 2014 to March 31, 2015) | Consolidated fiscal year under review<br>(from April 1, 2015 to March 31, 2016) |
|-------------------------|---|---|
| Buildings               | 10  | --  |
| Machinery and equipment | 8   | --  |
| Others                  | 0   | 0   |
| Total                   | 19  | 0   |

\*5. Breakdown of the loss on sales of non-current assets (Million yen)

|                         | Previous consolidated fiscal year<br>(from April 1, 2014 to March 31, 2015) | Consolidated fiscal year under review<br>(from April 1, 2015 to March 31, 2016) |
|-------------------------|---|---|
| Machinery and equipment | 31  | 14  |
| Others                  | --  | 0   |
| Total                   | 31  | 14  |



\*6. Impairment loss

The Group posted an impairment loss for the group of assets below.

Previous consolidated fiscal year (from April 1, 2014 to March 31, 2015)

| Location             | Use              | Type                    |
|----------------------|------------------|-------------------------|
| Nagaoka-shi, Niigata | Assets for lease | Machinery and equipment |

The business assets of the Group are grouped based on the mutual relationships among the businesses. Leased assets and idle assets are grouped individually. The assets above have been changed from business assets to leased assets, and their profitability has declined. Their book value has been therefore reduced to the recoverable amount, and an impairment loss of 60 million yen has been recorded in extraordinary losses. The recoverable value of this asset group is measured in accordance with the net sales value. Machinery and equipment are evaluated based on their trading price in the market.

Consolidated fiscal year under review (from April 1, 2015 to March 31, 2016)

| Location               | Use  | Type      |
|------------------------|--|-----------|
| Kawasaki-shi, Kanagawa | Assets planned to be sold<br>(Old company house) | Buildings |

The Group's assets are grouped in accordance with the business with which the assets are associated.

Since the expected sale value of the assets above, which are planned to be sold, is lower than the book value, the Group reduced the book value to the recoverable amount and posted an impairment loss of 111 million yen in extraordinary expenses. The breakdown of impairment losses are 82 million yen of Buildings and 29 million yen of Land. The recoverable amount was measured by the net sale value and was calculated based on the expected sale value.

The assets above were planned to be sold when the impairment loss was posted. They were in fact sold in March 2016.

(Consolidated Statements of Comprehensive Income)

|   | Previous consolidated fiscal year<br>(from April 1, 2014 to March 31, 2015) | Consolidated fiscal year under review<br>(from April 1, 2015 to March 31, 2016) |
|---|---|---|
| * Recycling and tax effect relating to other comprehensive income (Million yen)   |   |   |
| Valuation difference on available-for-sale securities:                            |   |   |
| Amount arising during fiscal year under review                                    | 1,899   | -1,468  |
| Recycling   | --  | --  |
| Before tax effect adjustment  | 1,899   | -1,468  |
| Tax effect  | -492  | 450   |
| Valuation difference on available-for-sale securities                             | 1,406   | -1,018  |
| Foreign currency translation adjustment:  |   |   |
| Amount arising during fiscal year under review                                    | 988   | -1,033  |
| Remeasurements of defined benefit plans, net of tax:                              |   |   |
| Amount arising during fiscal year under review                                    | 102   | -235  |
| Recycling   | 139   | 9   |
| Before tax effect adjustment  | 241   | -225  |
| Tax effect  | -85   | 69  |
| Remeasurements of defined benefit plans, net of tax                               | 156   | -156  |
| Share of other comprehensive income of entities accounted for using equity method |   |   |
| Amount arising during fiscal year under review                                    | --  | -98   |
| Total other comprehensive income  | 2,551   | -2,305  |

(Consolidated Statements of Changes in Net Assets)

Previous consolidated fiscal year (from April 1, 2014 to March 31, 2015)

1. Matters relating to type and number of outstanding shares and treasury stock (Thousand shares)

|                                      | Number of shares at the beginning of the consolidated fiscal year | Increase in shares in the consolidated fiscal year | Decrease in shares in the consolidated fiscal year | Number of shares at the end of the consolidated fiscal year |
|--------------------------------------|---|--|--|---|
| Outstanding shares                   |   |  |  |   |
| Common stock                         | 74,919  | --   | --   | 74,919  |
| Total                                | 74,919  | --   | --   | 74,919  |
| Treasury stock                       |   |  |  |   |
| Common stock <small>Note1, 2</small> | 2,562   | 3,128  | 405  | 5,285   |
| Total                                | 2,562   | 3,128  | 405  | 5,285   |

(Notes) 1. The increase in common stock of treasury stock of 3,128 thousand shares due to the purchase of 3,123 thousand shares on the Tokyo Stock Exchange, and the purchase of 5 thousand shares of odd-lot shares.

2. The decrease in common stock of treasury stock of 405 thousand shares was due to the exercise of stock options.

2. Matters concerning subscription rights to shares and subscription right to shares for treasury stock

| Category                            | Description of subscription rights to shares   | Type of shares to be issued under subscription rights to shares | Number of shares to be issued under subscription rights to shares |  |  |   | Outstanding balance at the end of the consolidated fiscal year (million yen) |
|-------------------------------------|--|---|---|--|--|---|--|
|                                     |  |   | Number of shares at the beginning of the consolidated fiscal year | Increase in shares in the consolidated fiscal year | Decrease in shares in the consolidated fiscal year | Number of shares at the end of the consolidated fiscal year |  |
| Submitting company (parent company) | Subscription rights to shares as stock options | --  | --  | --   | --   | --  | 718  |
| Consolidated subsidiary             | Subscription rights to shares as stock options | --  | --  | --   | --   | --  | 146  |
| Total                               |  | --  | --  | --   | --   | --  | 865  |

3. Matters relating to dividends

(1) Dividends paid

| (Resolution)   | Type of shares | Total amount of dividend (million yen) | Dividend per share (yen) | Record date        | Effective date    |
|--|----------------|--|--------------------------|--------------------|-------------------|
| Board of directors meeting held on May 13, 2014      | Common stock   | 434                                    | 6.00                     | March 31, 2014     | May 28, 2014      |
| Board of directors meeting held on November 12, 2014 | Common stock   | 432                                    | 6.00                     | September 30, 2014 | November 28, 2014 |

(2) Dividends with a record date in the current fiscal year but an effective date in the following fiscal year

| (Resolution)                                    | Type of shares | Total amount of dividend (million yen) | Funds for dividends | Dividend per share (yen) | Record date    | Effective date |
|---|----------------|--|---------------------|--------------------------|----------------|----------------|
| Board of directors meeting held on May 13, 2015 | Common stock   | 557                                    | Retained earnings   | 8.00                     | March 31, 2015 | May 29, 2015   |

Consolidated fiscal year under review (from April 1, 2015 to March 31, 2016)

1. Matters relating to type and number of outstanding shares and treasury stock (Thousand shares)

|                                      | Number of shares at the beginning of the consolidated fiscal year | Increase in shares in the consolidated fiscal year | Decrease in shares in the consolidated fiscal year | Number of shares at the end of the consolidated fiscal year |
|--------------------------------------|---|--|--|---|
| Outstanding shares                   |   |  |  |   |
| Common stock                         | 74,919  | --   | --   | 74,919  |
| Total                                | 74,919  | --   | --   | 74,919  |
| Treasury stock                       |   |  |  |   |
| Common stock <small>Note1, 2</small> | 5,285   | 2,972  | 234  | 8,023   |
| Total                                | 5,285   | 2,972  | 234  | 8,023   |

(Notes) 1. The increase in common stock of treasury stock of 2,972 thousand shares due to the purchase of 2,967 thousand shares on the Tokyo Stock Exchange, and the purchase of 5 thousand shares of odd-lot shares.

2. The decrease in common stock of treasury stock of 234 thousand shares was due to the exercise of stock options.

2. Matters concerning subscription rights to shares and subscription right to shares for treasury stock

| Category                            | Description of subscription rights to shares   | Type of shares to be issued under subscription rights to shares | Number of shares to be issued under subscription rights to shares |  |  |   | Outstanding balance at the end of the consolidated fiscal year (million yen) |
|-------------------------------------|--|---|---|--|--|---|--|
|                                     |  |   | Number of shares at the beginning of the consolidated fiscal year | Increase in shares in the consolidated fiscal year | Decrease in shares in the consolidated fiscal year | Number of shares at the end of the consolidated fiscal year |  |
| Submitting company (parent company) | Subscription rights to shares as stock options | --  | --  | --   | --   | --  | 736  |
| Consolidated subsidiary             | Subscription rights to shares as stock options | --  | --  | --   | --   | --  | 164  |
| Total                               |  | --  | --  | --   | --   | --  | 900  |

3. Matters relating to dividends

(1) Dividends paid

| (Resolution)   | Type of shares | Total amount of dividend (million yen) | Dividend per share (yen) | Record date        | Effective date    |
|--|----------------|--|--------------------------|--------------------|-------------------|
| Board of directors meeting held on May 13, 2015      | Common stock   | 557                                    | 8.00                     | March 31, 2015     | May 29, 2015      |
| Board of directors meeting held on November 12, 2015 | Common stock   | 534                                    | 8.00                     | September 30, 2015 | November 30, 2015 |

(2) Dividends with a record date in the current fiscal year but an effective date in the following fiscal year

| (Resolution)                                    | Type of shares | Total amount of dividend (million yen) | Funds for dividends | Dividend per share (yen) | Record date    | Effective date |
|---|----------------|--|---------------------|--------------------------|----------------|----------------|
| Board of directors meeting held on May 12, 2016 | Common stock   | 535                                    | Retained earnings   | 8.00                     | March 31, 2016 | May 30, 2016   |

(Consolidated Statements of Cash Flows)

\*Relationship between the ending balance of cash and cash equivalents and the accounts and their amounts on the Consolidated Balance Sheet (Million yen)

|   | Previous consolidated fiscal year<br>(from April 1, 2014 to March 31, 2015) | Consolidated fiscal year under review<br>(from April 1, 2015 to March 31, 2016) |
|---|---|---|
| Cash and cash accounts                            | 5,175   | 4,744   |
| Time deposits with maturity of more than 3 months | -223  | -155  |
| Cash and cash equivalents                         | 4,952   | 4,589   |

(Lease Transactions)

(Lessee)

Finance lease transactions without the transfer of ownership

(i) Leased assets

a. Property, plant and equipment

Primary tools, equipment and fixtures in the machine tool business and the specialized machines and other businesses

b. Intangible assets

Software

(ii) Depreciation and amortization methods for leased assets

The methods described in Important Matters that Become the Basis of Presenting Consolidated Financial Statements, 4. Matters concerning significant accounting policies, (2) Depreciation and amortization methods used for material depreciable and amortizable assets apply.

(Financial Instruments)

1. Situation of financial instruments

(1) Policy for financial instruments

The Group raises funds needed for performing operations in Japan and abroad primarily through bank loans. The Group uses derivatives to avoid the risks described below and will not carry out speculative transactions.

(2) Financial instruments, risks associated with them, and risk management for them

Trade notes and accounts receivable, operating receivables, are exposed to the credit risks of customers. Foreign currency operating receivables that are generated in overseas operations are exposed to exchange fluctuation risks but hedged by exchange forward contracts.

Investment securities are primarily shares in companies with which the Company has business relationships and are exposed to the risks of market price fluctuation. The due dates of most trade notes and accounts payable, which are operating payables, are within four months.

The primary purpose of borrowings, bonds, and lease obligations relating to finance lease transactions is raising operating funds, and the redemption date is a maximum of three years after the closing date.

The derivatives are exchange forward contracts whose purpose is hedging exchange fluctuation risks relating to foreign currency operating receivables. The departments in charge of derivatives trading carry out and manage derivatives trading with the approval of deciding officers and in accordance with internal rules.

Please refer to 4. Matters concerning significant accounting policies, (7) Significant hedge accounting method of "Important Matters that Becomes Basis of Presenting Consolidated Financial Statements" to find out information about the hedging instruments, hedged items, hedging policy, and method of valuating the effectiveness of hedging.

Operating payables and borrowings are exposed to liquidity risks. The Group manages the liquidity risk by the departments in charge of funds working out monthly cash management plans.

(3) Supplementary explanation on fair values of financial instruments

The fair values of financial instruments are values based on market values, or if there are no market values, values reasonably calculated. Since variables are included in the calculation of fair values, they may change depending on assumptions. The values of contracts relating to derivatives trading stated in the notes to derivatives trading do not show market risks relating to derivatives trading by themselves.

## 2. Matters relating to fair values of financial instruments

The table below shows the balance sheet amounts and fair values of financial instruments, and the difference between them. Financial instruments whose fair values are very difficult to estimate are not included in the table. (Please refer to Note 2.)

Previous consolidated fiscal year (As of March 31, 2015)

|   | Consolidated balance sheet amount (million yen) | Fair value (million yen) | Difference (million yen) |
|---|---|--------------------------|--------------------------|
| (1) Cash and deposits                   | 5,175   | 5,175                    | --                       |
| (2) Trade notes and accounts receivable | 7,054   | 7,054                    | --                       |
| (3) Investment securities               | 6,146   | 6,146                    | --                       |
| Total assets                            | 18,376  | 18,376                   | --                       |
| (1) Trade notes and accounts payable    | 8,276   | 8,276                    | --                       |
| (2) Short-term loans payable            | 6,855   | 6,855                    | --                       |
| (3) Income taxes payable                | 616   | 616                      | --                       |
| Total liabilities                       | 15,747  | 15,747                   | --                       |
| Derivatives*                            | --  | --                       | --                       |

\* Net receivables or payables generated in derivatives trading are shown in the table. Figures in parentheses show net payables.

Consolidated fiscal year under review (As of March 31, 2016)

|   | Consolidated balance sheet amount (million yen) | Fair value (million yen) | Difference (million yen) |
|---|---|--------------------------|--------------------------|
| (1) Cash and deposits                   | 4,744   | 4,744                    | --                       |
| (2) Trade notes and accounts receivable | 5,862   | 5,862                    | --                       |
| (3) Investment securities               | 4,978   | 4,978                    | --                       |
| Total assets                            | 15,585  | 15,585                   | --                       |
| (1) Trade notes and accounts payable    | 5,857   | 5,857                    | --                       |
| (2) Short-term loans payable            | 6,127   | 6,127                    | --                       |
| (3) Income taxes payable                | 267   | 267                      | --                       |
| Total liabilities                       | 12,253  | 12,253                   | --                       |
| Derivatives*                            | --  | --                       | --                       |

\* Net receivables or payables generated in derivatives trading are shown in the table. Figures in parentheses show net payables.

(Note) 1. Methods used for estimating the fair values of financial instruments and matters relating to securities and derivatives trading

### Assets

(1) Cash and deposits and (2) Trade notes and accounts receivable

These financial instruments are settled in the short term, and their fair values approximate their book value. The fair values are therefore deemed equal to their book values.

(3) Investment securities

The fair values of investment securities are determined by reference to quoted market prices on the stock exchanges.

### Liabilities

(1) Trade notes and accounts payable and (2) Short-term loans payable (3) Income taxes payable

These financial instruments are settled in the short term, and their fair values approximate their book value. The fair values are therefore deemed equal to their book values.

### Derivatives

Please refer to the notes to derivatives trading.

#### 2. Financial instruments whose fair values are very difficult to estimate (Million yen)

| Classification       | Previous consolidated fiscal year<br>(As of March 31, 2015) | Consolidated fiscal year under review<br>(As of March 31, 2016) |
|----------------------|---|---|
| Unlisted shares      | 1   | 1   |
| Shares in affiliates | 11  | 11  |

Since these financial instruments do not have any market prices, and their fair values are very difficult to estimate, they are not included in (3) Investment securities.

#### 3. Scheduled redemption amounts of monetary receivables after the consolidated closing date.

Previous consolidated fiscal year (As of March 31, 2015)

|  | Within one year<br>(million yen) | Longer than one year,<br>within five years<br>(million yen) | Longer than five<br>years, within ten years<br>(million yen) | Over ten years<br>(million yen) |
|--|----------------------------------|---|--|---------------------------------|
| Cash and deposits*                     | 5,164                            | --  | --   | --                              |
| Trade notes and accounts<br>receivable | 7,054                            | --  | --   | --                              |
| Total                                  | 12,218                           | --  | --   | --                              |

\*Cash is excluded.

Consolidated fiscal year under review (As of March 31, 2016)

|  | Within one year<br>(million yen) | Longer than one year,<br>within five years<br>(million yen) | Longer than five<br>years, within ten years<br>(million yen) | Over ten years<br>(million yen) |
|--|----------------------------------|---|--|---------------------------------|
| Cash and deposits*                     | 4,632                            | --  | --   | --                              |
| Trade notes and accounts<br>receivable | 5,862                            | --  | --   | --                              |
| Total                                  | 10,495                           | --  | --   | --                              |

\*Cash is excluded.

#### 4. Scheduled repayment of corporate bonds, lease obligations and other interest-bearing debt after the consolidated closing date.

Previous consolidated fiscal year (As of March 31, 2015)

|                             | Within one<br>year<br>(million yen) | Longer than<br>one year,<br>within two<br>years<br>(million yen) | Longer than<br>two years,<br>within three<br>years<br>(million yen) | Longer than<br>three years,<br>within four<br>years<br>(million yen) | Longer than<br>four years,<br>within five<br>years<br>(million yen) | Over five<br>years<br>(million yen) |
|-----------------------------|-------------------------------------|--|---|--|---|-------------------------------------|
| Short-term loans<br>payable | 6,855                               | --   | --  | --   | --  | --                                  |
| Total                       | 6,855                               | --   | --  | --   | --  | --                                  |

Consolidated fiscal year under review (As of March 31, 2016)

|                             | Within one<br>year<br>(million yen) | Longer than<br>one year,<br>within two<br>years<br>(million yen) | Longer than<br>two years,<br>within three<br>years<br>(million yen) | Longer than<br>three years,<br>within four<br>years<br>(million yen) | Longer than<br>four years,<br>within five<br>years<br>(million yen) | Over five<br>years<br>(million yen) |
|-----------------------------|-------------------------------------|--|---|--|---|-------------------------------------|
| Short-term loans<br>payable | 6,127                               | --   | --  | --   | --  | --                                  |
| Total                       | 6,127                               | --   | --  | --   | --  | --                                  |

(Securities)

1. Other securities

Previous consolidated fiscal year (As of March 31, 2015)

(Million yen)

|   | Classification     | Carrying amount on the consolidated balance sheet | Acquisition cost | Difference |
|---|--------------------|---|------------------|------------|
| Carrying amounts on the consolidated balance sheet exceeding the acquisition cost     | (1)Shares          | 6,146   | 2,238            | 3,907      |
|   | (2) Corporate bond | --  | --               | --         |
|   | (3)Others          | --  | --               | --         |
|   | Subtotal           | 6,146   | 2,238            | 3,907      |
| Carrying amounts on the consolidated balance sheet not exceeding the acquisition cost | (1)Shares          | --  | --               | --         |
|   | (2) Corporate bond | --  | --               | --         |
|   | (3)Others          | --  | --               | --         |
|   | Subtotal           | --  | --               | --         |
| Total   |                    | 6,146   | 2,238            | 3,907      |

(Note) Since unlisted stocks (whose consolidated balance sheet amount is 1 million yen) have no market prices, and their fair values are very difficult to estimate, they are omitted.

Consolidated fiscal year under review (As of March 31, 2016)

(Million yen)

|   | Classification     | Carrying amount on the consolidated balance sheet | Acquisition cost | Difference |
|---|--------------------|---|------------------|------------|
| Carrying amounts on the consolidated balance sheet exceeding the acquisition cost     | (1)Shares          | 4,925   | 2,485            | 2,440      |
|   | (2) Corporate bond | --  | --               | --         |
|   | (3)Others          | --  | --               | --         |
|   | Subtotal           | 4,925   | 2,485            | 2,440      |
| Carrying amounts on the consolidated balance sheet not exceeding the acquisition cost | (1)Shares          | 52  | 54               | -1         |
|   | (2) Corporate bond | --  | --               | --         |
|   | (3)Others          | --  | --               | --         |
|   | Subtotal           | 52  | 54               | -1         |
| Total   |                    | 4,978   | 2,540            | 2,438      |

(Note) Since unlisted stocks (whose consolidated balance sheet amount is 1 million yen) have no market prices, and their fair values are very difficult to estimate, they are omitted.

2. Other securities sold during the consolidated fiscal year

Previous consolidated fiscal year (from April 1, 2014 to March 31, 2015)

(Million yen)

| Classification | Amount of sale | Total profit on sale | Total loss on sale |
|----------------|----------------|----------------------|--------------------|
| Shares         | 2              | 2                    | --                 |

Consolidated fiscal year under review (from April 1, 2015 to March 31, 2016)

(Million yen)

| Classification | Amount of sale | Total profit on sale | Total loss on sale |
|----------------|----------------|----------------------|--------------------|
| Shares         | 2              | 2                    | --                 |

(Derivatives Trading)

Not applicable.

(Pension and Severance Cost)

1. Outline of retirement and severance benefits plans adopted by the companies

The Company and its consolidated subsidiaries adopt funded and unfunded defined benefit pension plans and defined contribution pension plans to provide for employees' retirement benefits.

Under defined benefit corporate pension plans (all of which are funded), a lump-sum grant and pension based on salary and length of service is paid.

Under retirement lump-sum grant plans (all of which are non-funded), a lump-sum grant based on salary and length of service is paid as retirement benefit.

For the defined benefit pension plans and retirement lump-sum grant plans of certain domestic and overseas consolidated subsidiaries, net defined benefit liability and retirement benefit cost is calculated by the simplified method.

The defined contribution plans adopted by certain domestic consolidated subsidiaries are SME retirement benefit mutual aid schemes.

2. Defined benefit plans (including those for which simplified method is adopted)

(1) Reconciliation of beginning and ending balances of the projected benefit obligations (Million yen)

|  | Previous consolidated fiscal year<br>(from April 1, 2014 to March 31, 2015) | Consolidated fiscal year under review<br>(from April 1, 2015 to March 31, 2016) |
|--|---|---|
| Projected benefit obligations at beginning of year   | 2,229   | 2,072   |
| Cumulative effects of changes in accounting policies | -168  | --  |
| Restated balance                                     | 2,060   | 2,072   |
| Service cost   | 140   | 136   |
| Interest cost  | 30  | 30  |
| Actuarial loss (gain)                                | 19  | 177   |
| Benefits paid  | -178  | -169  |
| Projected benefit obligations at end of year         | 2,072   | 2,247   |

(2) Reconciliation of beginning and ending balances of pension assets (Million yen)

|                                     | Previous consolidated fiscal year<br>(from April 1, 2014 to March 31, 2015) | Consolidated fiscal year under review<br>(from April 1, 2015 to March 31, 2016) |
|-------------------------------------|---|---|
| Pension assets at beginning of year | 1,283   | 1,536   |
| Expected return on pension assets   | 25  | 27  |
| Actuarial gain (loss)               | 121   | -58   |
| Employer contributions              | 209   | 134   |
| Benefits paid                       | -103  | -97   |
| Pension assets at end of year       | 1,536   | 1,543   |

(3) Reconciliation of beginning and ending balances of projected benefit obligations and pension assets and net defined benefit liability and net defined benefit asset recognized in the consolidated balance sheet (Million yen)

|  | Previous consolidated fiscal year<br>(As of March 31, 2015) | Consolidated fiscal year under review<br>(As of March 31, 2016) |
|--|---|---|
| Projected benefit obligations (funded plans)                         | 1,372   | 1,414   |
| Pension assets   | -1,536  | -1,543  |
|  | -164  | -129  |
| Projected benefit obligations (unfunded plans)                       | 700   | 832   |
| Net liability and asset recognized in the consolidated balance sheet | 535   | 703   |
| Net defined benefit liability  | 535   | 703   |
| Net liability and asset recognized in the consolidated balance sheet | 535   | 703   |



(4) Breakdown of retirement benefit expenses (Million yen)

|  | Previous consolidated fiscal year<br>(from April 1, 2014 to March 31, 2015) | Consolidated fiscal year under review<br>(from April 1, 2015 to March 31, 2016) |
|--|---|---|
| Service cost   | 140   | 136   |
| Interest cost  | 30  | 30  |
| Expected return on pension assets                      | -25   | -27   |
| Unsettled difference at change of accounting principle | 139   | --  |
| Recognized actuarial gain or loss                      | 0   | 9   |
| Retirement benefit expenses for defined benefit plans  | 284   | 149   |

(Note) Net retirement benefit costs of consolidated subsidiaries using the simplified method are accounted for as "Service costs."

(5) Remeasurements of defined benefit plans, net of tax

The amounts recognized as remeasurements of defined benefit plans, net of tax (before the effect of tax), are as follows:

|   | Previous consolidated fiscal year<br>(from April 1, 2014 to March 31, 2015) | Consolidated fiscal year under review<br>(from April 1, 2015 to March 31, 2016) |
|---|---|---|
| Net retirement benefit obligation when change is made | -139  | --  |
| Actuarial gains and losses                            | -102  | 225   |
| Total   | -241  | 225   |

(6) Remeasurements of defined benefit plans

The amounts recognized as remeasurements of defined benefit plans (before the effect of tax) are as follows: (Million yen)

|   | Previous consolidated fiscal year<br>(As of March 31, 2015) | Consolidated fiscal year under review<br>(As of March 31, 2016) |
|---|---|---|
| Unamortized net retirement benefit obligation at transition | 0   | --  |
| Unrecognized actuarial gains and losses                     | 49  | -176  |
| Total   | 49  | -176  |

(7) Matters relating to pension assets

(i) Significant components of pension assets

The significant components of pension assets by asset category are as follows:

|                  | Previous consolidated fiscal year<br>(As of March 31, 2015) | Consolidated fiscal year under review<br>(As of March 31, 2016) |
|------------------|---|---|
| Bonds            | 17.0%   | 16.5%   |
| Stock            | 24.4%   | 30.4%   |
| General accounts | 56.4%   | 39.7%   |
| Others           | 2.2%  | 13.4%   |
| Total            | 100.0%  | 100.0%  |

(ii) Determination method of expected long-term rate of return

The expected long-term rate of return on pension assets is determined based on the current and expected future distribution of pension assets and the current and expected future long-term rate of return of various assets of which pension assets are composed.

(8) Matters relating to assumptions used for actuarial computation

The weighted-average assumptions used for the actuarial computation at the end of the fiscal year were primarily as follows:

|                                   | Previous consolidated fiscal year<br>(As of March 31, 2015) | Consolidated fiscal year under review<br>(As of March 31, 2016) |
|-----------------------------------|---|---|
| Discount rate                     | 1.5%  | 1.5%  |
| Expected long-term rate of return | 2.0%  | 2.0%  |
| Expected rate of salary increase  | 3.1%  | 3.4%  |

(Stock Options)

1. Expenses posted in relation to stock options

(Million yen)

|  | Previous consolidated fiscal year<br>(from April 1, 2014 to March 31, 2015) | Consolidated fiscal year under review<br>(from April 1, 2015 to March 31, 2016) |
|--|---|---|
| Cost of sales                                | 24  | 15  |
| Selling, general and administrative expenses | 291   | 162   |

2. Amounts posted gains due to vested stock options unexercised

(Million yen)

|   | Previous consolidated fiscal year<br>(from April 1, 2014 to March 31, 2015) | Consolidated fiscal year under review<br>(from April 1, 2015 to March 31, 2016) |
|---|---|---|
| Gain on reversal of subscription rights to shares | --  | 49  |

3. Description and change in the scale of stock options

(1) Description of stock options

|  | 2005<br>First compensation-type<br>subscription rights to shares                | 2006<br>Stock compensation-type<br>stock options Plan A |
|--|---|---|
| Company  | The Company   | The Company   |
| Positions and numbers of officers to receive stock options | The Company's directors 4<br>Statutory auditors 4<br>Employees of the Company 7 | The Company's directors 4<br>Statutory auditors 4       |
| Number of stock options by share type (Note 1)             | Common stock 220,000 shares   | Common stock 78,000 shares                              |
| Grant date   | July 1, 2005  | July 20, 2006   |
| Vesting conditions   | (Note 2)  | (Note 2)  |
| Target period of service                                   | Not applicable  | Not applicable  |
| Exercise period  | July 1, 2005 to June 30, 2025   | July 21, 2006 to July 20, 2026                          |

|  | 2006<br>Stock compensation-type<br>stock options Plan B           | 2007<br>Stock compensation-type<br>stock options Plan A |
|--|---|---|
| Company  | The Company   | The Company   |
| Positions and numbers of officers to receive stock options | Titled executive officers 8<br>Employees with similar positions 3 | The Company's directors 4<br>Statutory auditors 4       |
| Number of stock options by share type (Note 1)             | Common stock 72,000 shares  | Common stock 101,000 shares                             |
| Grant date   | July 20, 2006   | July 9, 2007  |
| Vesting conditions   | (Note 2)  | (Note 2)  |
| Target period of service                                   | Not applicable  | Not applicable  |
| Exercise period  | July 21, 2006 to July 20, 2026                                    | July 10, 2007 to July 9, 2027                           |

|  | 2007<br>Stock compensation-type<br>stock options Plan B   | 2008<br>Stock compensation-type<br>stock options Plan A |
|--|---|---|
| Company  | The Company   | The Company   |
| Positions and numbers of officers to receive stock options | Titled executive officers 11<br>Employee of the Company 1 | The Company's directors 7<br>Statutory auditors 4       |
| Number of stock options by share type (Note 1)             | Common stock 89,000 shares                                | Common stock 100,000 shares                             |
| Grant date   | July 9, 2007  | July 7, 2008  |
| Vesting conditions   | (Note 2)  | (Note 2)  |
| Target period of service                                   | Not applicable  | Not applicable  |
| Exercise period  | July 10, 2007 to July 9, 2027                             | July 8, 2008 to July 7, 2028                            |

|  | 2008<br>Stock compensation-type<br>stock options Plan B | 2009<br>Stock compensation-type<br>stock options Plan A |
|--|---|---|
| Company  | The Company   | The Company   |
| Positions and numbers of officers to receive stock options | Titled executive officers 18                            | The Company's directors 7<br>Statutory auditors 4       |
| Number of stock options by share type (Note 1)             | Common stock 51,000 shares                              | Common stock 191,000 shares                             |
| Grant date   | July 7, 2008  | July 6, 2009  |
| Vesting conditions   | (Note 2)  | (Note 2)  |
| Target period of service                                   | Not applicable  | Not applicable  |
| Exercise period  | July 8, 2008 to July 7, 2028                            | July 7, 2009 to July 6, 2029                            |

|  | 2009<br>Stock compensation-type<br>stock options Plan B           | 2010<br>Seventh general-type<br>subscription rights to shares             |
|--|---|---|
| Company  | The Company   | The Company   |
| Positions and numbers of officers to receive stock options | Titled executive officers and employees with similar positions 14 | Employees of the Company 63<br>Directors of subsidiaries of the Company 7 |
| Number of stock options by share type (Note 1)             | Common stock 111,000 shares                                       | Common stock 350,000 shares   |
| Grant date   | July 6, 2009  | July 5, 2010  |
| Vesting conditions   | (Note 2)  | Not applicable  |
| Target period of service                                   | Not applicable  | July 5, 2010 to July 5, 2012  |
| Exercise period  | July 7, 2009 to July 6, 2029                                      | July 6, 2012 to June 30, 2015   |

|  | 2010<br>Stock compensation-type<br>stock options Plan A | 2010<br>Stock compensation-type<br>stock options Plan B    |
|--|---|--|
| Company  | The Company   | The Company  |
| Positions and numbers of officers to receive stock options | The Company's directors 7<br>Statutory auditors 4       | Executive officers and employees with similar positions 20 |
| Number of stock options by share type (Note 1)             | Common stock 101,000 shares                             | Common stock 100,000 shares                                |
| Grant date   | July 5, 2010  | July 5, 2010   |
| Vesting conditions   | (Note 2)  | (Note 2)   |
| Target period of service                                   | Not applicable  | Not applicable   |
| Exercise period  | July 6, 2010 to July 5, 2030                            | July 6, 2010 to July 5, 2030                               |

|  | 2011<br>Eighth general-type<br>subscription rights to shares | 2011<br>Stock compensation-type<br>stock options Plan A |
|--|--|---|
| Company  | The Company  | The Company   |
| Positions and numbers of officers to receive stock options | Employees of the Company 81                                  | The Company's directors 8<br>Statutory auditors 4       |
| Number of stock options by share type (Note 1)             | Common stock 350,000 shares                                  | Common stock 165,000 shares                             |
| Grant date   | July 4, 2011   | July 4, 2011  |
| Vesting conditions   | Not applicable   | (Note 2)  |
| Target period of service                                   | July 4, 2011 to July 4, 2013                                 | Not applicable  |
| Exercise period  | July 5, 2013 to June 30, 2016                                | July 5, 2011 to July 4, 2031                            |

|  | 2011<br>Stock compensation-type stock options<br>Plan B    | 2012<br>Ninth general-type<br>subscription rights to shares               |
|--|--|---|
| Company  | The Company  | The Company   |
| Positions and numbers of officers to receive stock options | Executive officers and employees with similar positions 14 | Employees of the Company 64<br>Directors of subsidiaries of the Company 3 |
| Number of stock options by share type (Note 1)             | Common stock 100,000 shares                                | Common stock 200,000 shares   |
| Grant date   | July 4, 2011   | July 2, 2012  |
| Vesting conditions   | (Note 2)   | Not applicable  |
| Target period of service                                   | Not applicable   | July 2, 2012 to July 2, 2014  |
| Exercise period  | July 5, 2011 to July 4, 2031                               | July 3, 2014 to June 30, 2017   |

|  | 2012<br>Stock compensation-type<br>stock options Plan A | 2012<br>Stock compensation-type stock options<br>Plan B    |
|--|---|--|
| Company  | The Company   | The Company  |
| Positions and numbers of officers to receive stock options | The Company's directors 9<br>Statutory auditors 4       | Executive officers and employees with similar positions 19 |
| Number of stock options by share type (Note 1)             | Common stock 160,000 shares                             | Common stock 110,000 shares                                |
| Grant date   | July 2, 2012  | July 2, 2012   |
| Vesting conditions   | (Note 2)  | (Note 2)   |
| Target period of service                                   | Not applicable  | Not applicable   |
| Exercise period  | July 3, 2012 to July 2, 2032                            | July 3, 2012 to July 2, 2032                               |

|  | 2013<br>10th general-type<br>subscription rights to shares                | 2013<br>Stock compensation-type stock options<br>Plan A |
|--|---|---|
| Company  | The Company   | The Company   |
| Positions and numbers of officers to receive stock options | Employees of the Company 59<br>Directors of subsidiaries of the Company 2 | The Company's directors 9<br>Statutory auditors 4       |
| Number of stock options by share type (Note 1)             | Common stock 200,000 shares   | Common stock 190,000 shares                             |
| Grant date   | July 8, 2013  | July 8, 2013  |
| Vesting conditions   | (Note 2)  | (Note 2)  |
| Target period of service                                   | July 8, 2013 to July 8, 2015  | Not applicable  |
| Exercise period  | July 9, 2015 to June 30, 2018   | July 9, 2013 to July 8, 2033                            |

|  | 2013<br>Stock compensation-type stock options<br>Plan B    | 2014<br>11th general-type<br>subscription rights to shares |
|--|--|--|
| Company  | The Company  | The Company  |
| Positions and numbers of officers to receive stock options | Executive officers and employees with similar positions 23 | Employees of the Company 63                                |
| Number of stock options by share type (Note 1)             | Common stock 120,000 shares                                | Common stock 200,000 shares                                |
| Grant date   | July 8, 2013   | July 7, 2014   |
| Vesting conditions   | (Note 2)   | Not applicable   |
| Target period of service                                   | Not applicable   | July 7, 2014 to July 7, 2016                               |
| Exercise period  | July 9, 2013 to July 8, 2033                               | July 8, 2016 to June 30, 2019                              |

|  | 2014<br>Stock compensation-type stock options<br>Plan A | 2014<br>Stock compensation-type stock options<br>Plan B    |
|--|---|--|
| Company  | The Company   | The Company  |
| Positions and numbers of officers to receive stock options | The Company's directors 9<br>Statutory auditors 5       | Executive officers and employees with similar positions 19 |
| Number of stock options by share type (Note 1)             | Common stock 190,000 shares                             | Common stock 110,000 shares                                |
| Grant date   | July 7, 2014  | July 7, 2014   |
| Vesting conditions   | (Note 2)  | (Note 2)   |
| Target period of service                                   | Not applicable  | Not applicable   |
| Exercise period  | July 8, 2014 to July 7, 2034                            | July 8, 2014 to July 7, 2034                               |

|  | 2014<br>Stock options Group A   | 2014<br>Stock options Group B  |
|--|---|--|
| Company  | Consolidated subsidiary<br>(Precision Tsugami (China) Corporation Limited)  | Consolidated subsidiary<br>(Precision Tsugami (China) Corporation Limited) |
| Positions and numbers of officers to receive stock options | Consolidated subsidiary's directors 6<br>Consolidated subsidiary's statutory auditor 1<br>Consolidated subsidiary's employees 4 | Consolidated subsidiary's employees 44                                     |
| Number of stock options by share type (Note 1)             | Common stock 4,845,000 shares   | Common stock 3,781,000 shares  |
| Grant date   | March 14, 2014  | March 14, 2014   |
| Vesting conditions   | Not applicable  | Not applicable   |
| Target period of service                                   | March 14, 2014 to March 16, 2015  | March 14, 2014 to March 16, 2017   |
| Exercise period  | March 17, 2015 to March 16, 2020  | March 17, 2017 to March 16, 2020   |

|  | 2015<br>Stock compensation-type stock options<br>Plan A | 2015<br>Stock compensation-type stock options<br>Plan B    |
|--|---|--|
| Company  | The Company   | The Company  |
| Positions and numbers of officers to receive stock options | The Company's directors 8<br>Statutory auditors 5       | Executive officers and employees with similar positions 25 |
| Number of stock options by share type (Note 1)             | Common stock 131,000 shares                             | Common stock 122,000 shares                                |
| Grant date   | July 6, 2015  | July 6, 2015   |
| Vesting conditions   | (Note 2)  | (Note 2)   |
| Target period of service                                   | Not applicable  | Not applicable   |
| Exercise period  | July 7, 2015 to July 6, 2035                            | July 7, 2015 to July 6, 2035                               |

- (Note) 1. The number of stock options is converted to the number of shares.
2. In principle, a holder of subscription rights to shares may exercise them when the holder no longer holds a position as the Company's director, corporate auditor, executive officer, and/or employee with a similar title. In this case, the holder may only exercise the subscription rights to shares within a period of seven days from the next day of the date when he/she loses the above titles.

(2) Change in the scale of stock options

The stock options that existed in the consolidated fiscal year under review ended March 31, 2016 are counted. The number of stock options is converted to the number of shares.

(i) Number of stock options

|                              | 2005<br>First compensation-type<br>subscription rights to<br>shares | 2006<br>Stock compensation-type<br>stock options Plan A | 2006<br>Stock compensation-type<br>stock options Plan B |
|------------------------------|---|---|---|
| Company                      | The Company   | The Company   | The Company   |
| Before vesting date (shares) |   |   |   |
| End of previous fiscal year  | --  | --  | --  |
| Granted                      | --  | --  | --  |
| Lapsed                       | --  | --  | --  |
| Vested                       | --  | --  | --  |
| Non-vested                   | --  | --  | --  |
| After vesting date (shares)  |   |   |   |
| End of previous fiscal year  | 59,000  | 22,000  | 19,000  |
| Vested                       | --  | --  | --  |
| Exercised                    | --  | --  | --  |
| Lapsed                       | --  | --  | --  |
| Unexercised                  | 59,000  | 22,000  | 19,000  |

|                              | 2007<br>Stock compensation-type<br>stock options Plan A | 2007<br>Stock compensation-type<br>stock options Plan B | 2008<br>Stock compensation-type<br>stock options Plan A |
|------------------------------|---|---|---|
| Company                      | The Company   | The Company   | The Company   |
| Before vesting date (shares) |   |   |   |
| End of previous fiscal year  | --  | --  | --  |
| Granted                      | --  | --  | --  |
| Lapsed                       | --  | --  | --  |
| Vested                       | --  | --  | --  |
| Non-vested                   | --  | --  | --  |
| After vesting date (shares)  |   |   |   |
| End of previous fiscal year  | 29,000  | 36,000  | 37,000  |
| Vested                       | --  | --  | --  |
| Exercised                    | --  | --  | --  |
| Lapsed                       | --  | --  | --  |
| Unexercised                  | 29,000  | 36,000  | 37,000  |

|                              | 2008<br>Stock compensation-type<br>stock options Plan B | 2009<br>Stock compensation-type<br>stock options Plan A | 2009<br>Stock compensation-type<br>stock options Plan B |
|------------------------------|---|---|---|
| Company                      | The Company   | The Company   | The Company   |
| Before vesting date (shares) |   |   |   |
| End of previous fiscal year  | --  | --  | --  |
| Granted                      | --  | --  | --  |
| Lapsed                       | --  | --  | --  |
| Vested                       | --  | --  | --  |
| Non-vested                   | --  | --  | --  |
| After vesting date (shares)  |   |   |   |
| End of previous fiscal year  | 24,000  | 93,000  | 75,000  |
| Vested                       | --  | --  | --  |
| Exercised                    | 4,000   | --  | 15,000  |
| Lapsed                       | --  | --  | --  |
| Unexercised                  | 20,000  | 93,000  | 60,000  |

|                              | 2010<br>Seventh general-type<br>subscription rights to<br>shares | 2010<br>Stock compensation-type<br>stock options Plan A | 2010<br>Stock compensation-type<br>stock options Plan B |
|------------------------------|--|---|---|
| Company                      | The Company  | The Company   | The Company   |
| Before vesting date (shares) |  |   |   |
| End of previous fiscal year  | --   | --  | --  |
| Granted                      | --   | --  | --  |
| Lapsed                       | --   | --  | --  |
| Vested                       | --   | --  | --  |
| Non-vested                   | --   | --  | --  |
| After vesting date (shares)  |  |   |   |
| End of previous fiscal year  | 312,000  | 58,000  | 43,000  |
| Vested                       | --   | --  | --  |
| Exercised                    | 38,000   | --  | 10,000  |
| Lapsed                       | 274,000  | --  | --  |
| Unexercised                  | --   | 58,000  | 33,000  |

|                              | 2011<br>Eighth general-type<br>subscription rights to<br>shares | 2011<br>Stock compensation-type<br>stock options Plan A | 2011<br>Stock compensation-type<br>stock options Plan B |
|------------------------------|---|---|---|
| Company                      | The Company   | The Company   | The Company   |
| Before vesting date (shares) |   |   |   |
| End of previous fiscal year  | --  | --  | --  |
| Granted                      | --  | --  | --  |
| Lapsed                       | --  | --  | --  |
| Vested                       | --  | --  | --  |
| Non-vested                   | --  | --  | --  |
| After vesting date (shares)  |   |   |   |
| End of previous fiscal year  | 231,000   | 133,000   | 66,000  |
| Vested                       | --  | --  | --  |
| Exercised                    | 13,000  | 31,000  | --  |
| Lapsed                       | --  | --  | --  |
| Unexercised                  | 218,000   | 102,000   | 66,000  |



|                              | 2012<br>Ninth general-type<br>subscription rights to<br>shares | 2012<br>Stock compensation-type<br>stock options Plan A | 2012<br>Stock compensation-type<br>stock options Plan B |
|------------------------------|--|---|---|
| Company                      | The Company  | The Company   | The Company   |
| Before vesting date (shares) |  |   |   |
| End of previous fiscal year  | --   | --  | --  |
| Granted                      | --   | --  | --  |
| Lapsed                       | --   | --  | --  |
| Vested                       | --   | --  | --  |
| Non-vested                   | --   | --  | --  |
| After vesting date (shares)  |  |   |   |
| End of previous fiscal year  | 158,000  | 140,000   | 68,000  |
| Vested                       | --   | --  | --  |
| Exercised                    | 6,000  | 25,000  | 6,000   |
| Lapsed                       | --   | --  | --  |
| Unexercised                  | 152,000  | 115,000   | 62,000  |

|                              | 2013<br>10th general-type<br>subscription rights to<br>shares | 2013<br>Stock compensation-type<br>stock options Plan A | 2013<br>Stock compensation-type<br>stock options Plan B |
|------------------------------|---|---|---|
| Company                      | The Company   | The Company   | The Company   |
| Before vesting date (shares) |   |   |   |
| End of previous fiscal year  | 200,000   | --  | --  |
| Granted                      | --  | --  | --  |
| Lapsed                       | --  | --  | --  |
| Vested                       | 200,000   | --  | --  |
| Non-vested                   | --  | --  | --  |
| After vesting date (shares)  |   |   |   |
| End of previous fiscal year  | --  | 180,000   | 96,000  |
| Vested                       | 200,000   | --  | --  |
| Exercised                    | --  | 29,000  | 5,000   |
| Lapsed                       | --  | --  | --  |
| Unexercised                  | 200,000   | 151,000   | 91,000  |

|                              | 2014<br>11th general-type<br>subscription rights to<br>shares | 2014<br>Stock compensation-type<br>stock options Plan A | 2014<br>Stock compensation-type<br>stock options Plan B |
|------------------------------|---|---|---|
| Company                      | The Company   | The Company   | The Company   |
| Before vesting date (shares) |   |   |   |
| End of previous fiscal year  | 200,000   | --  | --  |
| Granted                      | --  | --  | --  |
| Lapsed                       | --  | --  | --  |
| Vested                       | --  | --  | --  |
| Non-vested                   | 200,000   | --  | --  |
| After vesting date (shares)  |   |   |   |
| End of previous fiscal year  | --  | 190,000   | 105,000   |
| Vested                       | --  | --  | --  |
| Exercised                    | --  | 29,000  | 19,000  |
| Lapsed                       | --  | --  | --  |
| Unexercised                  | --  | 161,000   | 86,000  |

|                              | 2014<br>Stock options Group A   | 2014<br>Stock options Group B   | 2015<br>Stock compensation-type<br>stock options Plan A |
|------------------------------|---|---|---|
| Company                      | Consolidated subsidiary<br>(Precision Tsugami (China)<br>Corporation Limited) | Consolidated subsidiary<br>(Precision Tsugami (China)<br>Corporation Limited) | The Company   |
| Before vesting date (shares) |   |   |   |
| End of previous fiscal year  | --  | 3,781,000   | --  |
| Granted                      | --  | --  | 131,000   |
| Lapsed                       | --  | --  | --  |
| Vested                       | --  | --  | 131,000   |
| Non-vested                   | --  | 3,781,000   | --  |
| After vesting date (shares)  |   |   |   |
| End of previous fiscal year  | 4,845,000   | --  | --  |
| Vested                       | --  | --  | 131,000   |
| Exercised                    | --  | --  | --  |
| Lapsed                       | --  | --  | --  |
| Unexercised                  | 4,845,000   | --  | 131,000   |

|                              | 2015<br>Stock compensation-type<br>stock options Plan B |
|------------------------------|---|
| Company                      | The Company   |
| Before vesting date (shares) |   |
| End of previous fiscal year  | --  |
| Granted                      | 122,000   |
| Lapsed                       | --  |
| Vested                       | 122,000   |
| Non-vested                   | --  |
| After vesting date (shares)  |   |
| End of previous fiscal year  | --  |
| Vested                       | 122,000   |
| Exercised                    | 4,000   |
| Lapsed                       | 6,000   |
| Unexercised                  | 112,000   |

(ii) Unit price information

(Yen)

|  | 2005<br>First compensation-type<br>subscription rights to shares | 2006<br>Stock compensation-type<br>stock options Plan A | 2006<br>Stock compensation-type<br>stock options Plan B |
|--|--|---|---|
| Company  | The Company  | The Company   | The Company   |
| Exercise price                                 | 1  | 1   | 1   |
| Average stock price at the time of<br>exercise | --   | --  | --  |
| Fair valuation of unit price (grant date)      | --   | 608   | 608   |

(Yen)

|  | 2007<br>Stock compensation-type<br>stock options Plan A | 2007<br>Stock compensation-type<br>stock options Plan B | 2008<br>Stock compensation-type<br>stock options Plan A |
|--|---|---|---|
| Company  | The Company   | The Company   | The Company   |
| Exercise price                                 | 1   | 1   | 1   |
| Average stock price at the time of<br>exercise | --  | --  | --  |
| Fair valuation of unit price (grant date)      | 513   | 513   | 279   |

(Yen)

|  | 2008<br>Stock compensation-type<br>stock options Plan B | 2009<br>Stock compensation-type<br>stock options Plan A | 2009<br>Stock compensation-type<br>stock options Plan B |
|--|---|---|---|
| Company  | The Company   | The Company   | The Company   |
| Exercise price                                 | 1   | 1   | 1   |
| Average stock price at the time of<br>exercise | 732   | --  | 704   |
| Fair valuation of unit price (grant date)      | 279   | 123   | 123   |

(Yen)

|  | 2010<br>Seventh general-type<br>subscription rights to<br>shares | 2010<br>Stock compensation-type<br>stock options Plan A | 2010<br>Stock compensation-type<br>stock options Plan B |
|--|--|---|---|
| Company  | The Company  | The Company   | The Company   |
| Exercise price                                 | 667  | 1   | 1   |
| Average stock price at the time of<br>exercise | 736  | --  | 732   |
| Fair valuation of unit price (grant date)      | 182  | 532   | 532   |

(Yen)

|  | 2011<br>Eighth general-type<br>subscription rights to<br>shares | 2011<br>Stock compensation-type<br>stock options Plan A | 2011<br>Stock compensation-type<br>stock options Plan B |
|--|---|---|---|
| Company  | The Company   | The Company   | The Company   |
| Exercise price                                 | 481   | 1   | 1   |
| Average stock price at the time of<br>exercise | 736   | 704   | --  |
| Fair valuation of unit price (grant date)      | 163   | 408   | 408   |

(Yen)

|  | 2012<br>Ninth general-type<br>subscription rights to<br>shares | 2012<br>Stock compensation-type<br>stock options Plan A | 2012<br>Stock compensation-type<br>stock options Plan B |
|--|--|---|---|
| Company  | The Company  | The Company   | The Company   |
| Exercise price                                 | 589  | 1   | 1   |
| Average stock price at the time of<br>exercise | 736  | 704   | 486   |
| Fair valuation of unit price (grant date)      | 196  | 459   | 459   |

(Yen)

|  | 2013<br>10th general-type<br>subscription rights to<br>shares | 2013<br>Stock compensation-type<br>stock options Plan A | 2013<br>Stock compensation-type<br>stock options Plan B |
|--|---|---|---|
| Company  | The Company   | The Company   | The Company   |
| Exercise price                                 | 575   | 1   | 1   |
| Average stock price at the time of<br>exercise | --  | 704   | 486   |
| Fair valuation of unit price (grant date)      | 180   | 445   | 445   |

(Yen)

|  | 2014<br>11th general-type<br>subscription rights to<br>shares | 2014<br>Stock compensation-type<br>stock options Plan A | 2014<br>Stock compensation-type<br>stock options Plan B |
|--|---|---|---|
| Company  | The Company   | The Company   | The Company   |
| Exercise price                                 | 584   | 1   | 1   |
| Average stock price at the time of<br>exercise | --  | 704   | 616   |
| Fair valuation of unit price (grant date)      | 166   | 452   | 452   |

(HKD)

|  | 2014<br>Stock options Group A   | 2014<br>Stock options Group B   |
|--|---|---|
| Company  | Consolidated subsidiary<br>(Precision Tsugami (China)<br>Corporation Limited) | Consolidated subsidiary<br>(Precision Tsugami (China)<br>Corporation Limited) |
| Exercise price                                 | 1.50  | 1.50  |
| Average stock price at the time of<br>exercise | --  | --  |
| Fair valuation of unit price (grant date)      | 1.55  | 1.44  |

(Yen)

|  | 2015<br>Stock compensation-type<br>stock options Plan A | 2015<br>Stock compensation-type<br>stock options Plan B |
|--|---|---|
| Company  | The Company   | The Company   |
| Exercise price                                 | 1   | 1   |
| Average stock price at the time of<br>exercise | --  | 499   |
| Fair valuation of unit price (grant date)      | 526   | 526   |

### 3. Method of estimating a fair unit price of stock options

The following is the method of estimating a fair unit price of the 2015 stock options granted in the fiscal year:

The Company

(i) Valuation technique used: Black-Scholes method

(ii) Major fundamental figures and estimation method

|                                    | 2015<br>Compensation-type<br>subscription rights to shares<br>Plan A and Plan B |
|------------------------------------|---|
| Stock price volatility (Note 1)    | 44.887%   |
| Expected remaining period (Note 2) | 10.0 years  |
| Projected dividend (Note 3)        | 14.00 yen per share   |
| Risk-free interest rate (Note 4)   | 0.453%  |

(Note) 1. The stock price volatility for the 2015 Plan A and Plan B compensation-type subscription rights to shares was calculated based on the closing price on the last trading day of each month in the past 10 years (from June 2005 to June 2015).

2. Since accumulated data is insufficient, reasonably estimating a remaining period is difficult. We thus estimate a period based on the assumption that stock options will be exercised at the mid-point of the exercise period.

3. The projected dividend is based on the actual dividend for the fiscal year ended March 31, 2015.

4. The rate is the yield of the government bond for the expected remaining period.

### 4. Method of estimating the number of vested stock options

Estimating the number of lapsed stock options is basically difficult. The Company has thus applied a method that reflects only the number of actually lapsed stock options.

(Deferred Tax Accounting)

1. Breakdown of deferred tax assets and deferred tax liabilities by major cause

|   | (Million yen)  |  |
|---|--|--|
|   | Previous consolidated<br>fiscal year<br>(As of March 31, 2015) | Consolidated fiscal year<br>under review<br>(As of March 31, 2016) |
| Deferred tax assets                                   |  |  |
| Allowance for doubtful accounts                       | 14   | 14   |
| Reserve for bonus payment                             | 62   | 49   |
| Net defined benefit liability                         | 165  | 208  |
| Reserve for product warranties                        | 125  | 90   |
| Loss on devaluation of investment securities          | 125  | 118  |
| Loss on devaluation of affiliates' stock              | 7  | 7  |
| Loss on devaluation of inventories                    | 15   | 141  |
| Impairment loss                                       | 68   | 44   |
| Accrued enterprise taxes                              | 40   | 9  |
| Accrued sales commission                              | 24   | 17   |
| Unrealized income of inventories                      | 105  | 60   |
| Stock-based compensation expenses                     | 172  | 180  |
| Non-qualified contribution in-kind                    | 875  | 831  |
| Foreign tax credit carried forward                    | --   | 38   |
| Other   | 94   | 117  |
| Deferred tax assets subtotal                          | 1,896  | 1,925  |
| Valuation reserve                                     | -1,288   | -1,226   |
| Deferred tax assets total                             | 607  | 699  |
| Deferred tax liabilities                              |  |  |
| Valuation difference on available-for-sale securities | -1,109   | -658   |
| Reserve profit of overseas subsidiaries               | -138   | -60  |
| Deferred tax liabilities total                        | -1,247   | -718   |
| Net deferred tax assets (liabilities)                 | -639   | -19  |

2. Breakdown of difference between the legally effective tax rate and the actual effective tax rate after applying tax effect accounting by major cause

|   | Previous consolidated<br>fiscal year<br>(As of March 31, 2015) | Consolidated fiscal year<br>under review<br>(As of March 31, 2016) |
|---|--|--|
| Legally effective tax rate  | 35.6%  | 32.1%  |
| (Adjustments)   |  |  |
| Differences from applicable tax rates for overseas subsidiaries                       | -6.0%  | -4.4%  |
| Experiment and research expenses  | -0.7%  | -0.1%  |
| Tax sparing   | -2.3%  | -11.5%   |
| Items permanently excluded from nontaxable expenses,<br>including entertainment costs | 1.7%   | 5.0%   |
| Increase (decrease) in valuation reserve  | 0.9%   | 0.3%   |
| Change of tax rate  | 0.7%   | 2.3%   |
| Withholding tax on dividends from overseas subsidiaries                               | --   | 7.0%   |
| Effect of eliminating internal transactions   | 2.2%   | -5.9%  |
| Other   | -1.1%  | 1.5%   |
| Actual effective tax rate after applying tax effect                                   | 31.0%  | 26.3%  |

3. Revision to deferred tax assets and deferred tax liabilities associated with changes in corporate income tax rates etc.

On March 29, 2016, the Act for Partial Revision of the Income Tax Act, etc. (Act No. 15 of 2016) and the Act for Partial Revision of the Local Taxation Act, etc. (Act No. 13 of 2016) were enacted in the Diet session, and the corporate income tax rates are lowered from fiscal years beginning on or after April 1, 2016. The statutory tax rates used in the calculation of deferred tax assets and deferred tax liabilities, 31.3%, become 29.9% for temporary differences that will be eliminated in the fiscal year starting April 1, 2016 and the fiscal year starting April 1, 2017 and 29.7% for temporary differences that will be eliminated in the fiscal year starting April 1, 2018 and subsequent years.

Because of the changes in tax rates, deferred tax liabilities (less deferred tax assets) have declined 13 million yen, and income taxes-deferred and the valuation difference on available-for-sale securities have risen 24 million yen and 35 million yen, respectively. Remeasurements of defined benefit plans has increased 2 million yen.

(Business Combination)

Not applicable.

(Asset Retirement Obligations)

Not stated because of the insignificant amount.

(Real estate for rent, etc.)

Not stated because of the insignificant amount.

(Segment Information)

Segment Information

1. Summary of reportable segments

The Company's reportable segments are its constituent units that disclose financial information separately. They fall under the scope of periodic reviews the Company's Board of Directors performs to determine the distribution of its management resources and to assess its operating results.

The Group manufactures and sells machine tools in Japan and abroad. The Group consists of geographic segments based on its manufacturing and sales organizations. The Company's reportable segments are Japan, China and South Korea, which are the areas where Group companies are located.

2. Basis of calculating net sales, income or loss, assets, liabilities and other items by reportable segment

The accounting methods for the reportable segments are the same as those described in "Important Matters that Become Basis of Presenting Consolidated Financial Statements."

Segment income is based on operating income for each reportable segment.

Intersegment revenue and transfers are based on market prices.

3. Information relating to net sales income or loss, assets, liabilities and other items by reportable segment.

Previous consolidated fiscal year (from April 1, 2014 to March 31, 2015)

(Million yen)

|  | Reportable segment |        |             |        | Adjustment<br>(Note) 1 | Consolidated<br>financial<br>statement amount<br>(Note) 2 |
|--|--------------------|--------|-------------|--------|------------------------|---|
|  | Japan              | China  | South Korea | Total  |                        |   |
| Net sales  |                    |        |             |        |                        |   |
| Net sales to external customers                                  | 23,758             | 29,249 | 1,124       | 54,132 | --                     | 54,132  |
| Intersegment net sales or transfers to other accounts            | 11,637             | 9,683  | 54          | 21,375 | -21,375                | --  |
| Total  | 35,395             | 38,932 | 1,179       | 75,507 | -21,375                | 54,132  |
| Segment income   | 1,485              | 5,749  | 24          | 7,259  | -5                     | 7,253   |
| Segment assets   | 25,514             | 27,002 | 844         | 53,361 | 3,468                  | 56,829  |
| Other items  |                    |        |             |        |                        |   |
| Depreciation and amortization                                    | 417                | 744    | 12          | 1,174  | -13                    | 1,160   |
| Investments in equity method affiliates                          | --                 | --     | --          | --     | --                     | --  |
| Increases in property, plant and equipment and intangible assets | 269                | 1,487  | 29          | 1,786  | -60                    | 1,725   |

(Note) 1. Adjustment details are as follows.

(1) "Adjustment" of segment income of minus 5 million yen is the adjustment of unrealized income.

(2) "Adjustment" of segment assets of 3,468 million yen includes Company-wide assets of 9,918 million yen and an effect of intersegment adjustments of minus 6,450 million yen.

Company-wide assets are primarily assets that do not belong to any reportable segment (cash and deposits and investment securities).

(3) "Adjustment" of increases in property, plant and equipment and intangible assets of minus 60 million yen is the effect of intersegment adjustments.

2. Segment income is adjusted in accordance with operating income on the consolidated financial statements.



Consolidated fiscal year under review (from April 1, 2015 to March 31, 2016)

(Million yen)

|  | Reportable segment |        |             |        | Adjustment<br>(Note) 1 | Consolidated<br>financial<br>statement amount<br>(Note) 2 |
|--|--------------------|--------|-------------|--------|------------------------|---|
|  | Japan              | China  | South Korea | Total  |                        |   |
| Net sales  |                    |        |             |        |                        |   |
| Net sales to external customers                                  | 24,965             | 13,612 | 1,554       | 40,132 | --                     | 40,132  |
| Intersegment net sales or transfers to other accounts            | 7,061              | 11,121 | 53          | 18,237 | -18,237                | --  |
| Total  | 32,027             | 24,734 | 1,607       | 58,369 | -18,237                | 40,132  |
| Segment income   | -28                | 1,907  | 128         | 2,007  | 118                    | 2,125   |
| Segment assets   | 21,137             | 19,537 | 1,089       | 41,763 | 6,095                  | 47,859  |
| Other items  |                    |        |             |        |                        |   |
| Depreciation and amortization                                    | 365                | 721    | 19          | 1,105  | -13                    | 1,091   |
| Investments in equity method affiliates                          | 616                | --     | --          | 616    | --                     | 616   |
| Increases in property, plant and equipment and intangible assets | 130                | 417    | 48          | 595    | --                     | 595   |

(Note) 1. Adjustment details are as follows.

(1) "Adjustment" of segment income of 118 million yen is the adjustment of unrealized income.

(2) "Adjustment" of segment assets of 6,095 million yen includes Company-wide assets of 8,371 million yen and an effect of intersegment adjustments of minus 2,275 million yen.

Company-wide assets are primarily assets that do not belong to any reportable segment (cash and deposits and investment securities).

2. Segment income is adjusted in accordance with operating income on the consolidated financial statements.

Related information

Previous consolidated fiscal year (from April 1, 2014 to March 31, 2015)

1. Information by product and service

Not stated because sales of machine tools to external customers exceeded 90% of net sales on the consolidated statements of income.

2. Information by area

(1) Net sales

Not stated because similar information is stated in the segment information.

(2) Property, plant and equipment

Not stated because similar information is stated in the segment information.

3. Information by major customer

Not stated because sales for specific customer less than 10% of net sales on the consolidated statements of income.

Consolidated fiscal year under review (from April 1, 2015 to March 31, 2016)

1. Information by product and service

Not stated because sales of machine tools to external customers exceeded 90% of net sales on the consolidated statements of income.

2. Information by area

(1) Net sales

Not stated because similar information is stated in the segment information.

(2) Property, plant and equipment

Not stated because similar information is stated in the segment information.

3. Information by major customer

Not stated because sales for specific customer less than 10% of net sales on the consolidated statements of income.

Information on impairment loss on Non-current assets by reportable segment

Previous consolidated fiscal year (from April 1, 2014 to March 31, 2015)

(Million yen)

|                 | Japan | China | South Korea | Corporate or elimination | Total |
|-----------------|-------|-------|-------------|--------------------------|-------|
| Impairment loss | 60    | --    | --          | --                       | 60    |

Consolidated fiscal year under review (from April 1, 2015 to March 31, 2016)

(Million yen)

|                 | Japan | China | South Korea | Corporate or elimination | Total |
|-----------------|-------|-------|-------------|--------------------------|-------|
| Impairment loss | 111   | --    | --          | --                       | 111   |

Information on the amortization of goodwill and unamortized balance by reportable segment

No corresponding item existed.

Information on gain on negative goodwill by reportable segment

No corresponding item existed.

Related Party information

Transaction with the Company's directors and major shareholders

Previous consolidated fiscal year (from April 1, 2014 to March 31, 2015)

The statement of transactions with related parties is omitted, since the amount did not reach the disclosure standard.

Consolidated fiscal year under review (from April 1, 2015 to March 31, 2016)

| Attributes | Name  | Address | Capital or investments (million yen) | Business      | Ownership of voting rights (%) | Relationship   | Transactions  | Transaction amount (million yen) | Account                    | Balance at end of year (million yen) |
|------------|---|---------|--------------------------------------|---------------|--------------------------------|--|---|----------------------------------|----------------------------|--------------------------------------|
| Affiliate  | TSUGAMI PRECISION ENGINEERING INDIA PVT. LTD. | India   | 450                                  | Manufacturing | (Owning) Direct: 90.9%         | Manufacturing and sales of the Company's products<br>Concurrent service by directors | Manufacturing and sales of the Company's products and parts (Note1) | 468                              | Accounts receivable        | 466                                  |
|            |   |         |                                      |               |                                |  | Lending of funds (Note2)  | 578                              | Long-term loans receivable | 578                                  |

Business terms and policies for their determination, etc.

(Note) 1. Terms for sales and purchases of the Company's products, etc. are determined with their market prices as reference data.

2. Reasonable interest rates on loans are determined in consideration of market interest rates.

(Per Share information)

|   | Previous consolidated fiscal year (from April 1, 2014 to March 31, 2015) | Consolidated fiscal year under review (from April 1, 2015 to March 31, 2016) |
|---|--|--|
| Net assets per share                                  | 522.94 yen   | 473.78 yen   |
| Net income per share                                  | 74.37 yen  | 13.04 yen  |
| Net income per share after residual equity adjustment | 72.92 yen  | 12.77 yen  |

(Note) The bases for the calculation of net income per share and net income per share after residual equity adjustment are as follows.

|   | Previous consolidated fiscal year (from April 1, 2014 to March 31, 2015)   | Consolidated fiscal year under review (from April 1, 2015 to March 31, 2016)  |
|---|--|---|
| Net income per share  |  |   |
| Net income attributable to owners of parent (million yen)   | 5,297  | 877   |
| Amount not attributed to common shareholders (million yen)  | --   | --  |
| Net income attributable to owners of parent on common stock (million yen)   | 5,297  | 877   |
| Average number of shares during the period (thousand shares)  | 71,227   | 67,292  |
| Net income per share after residual equity adjustment   |  |   |
| Adjustment in net income attributable to owners of parent (million yen)   | --   | --  |
| Increase in common stock (thousand shares)  | 1,411  | 1,441   |
| (Stock option) (thousand shares)  | (1,411)  | (1,441)   |
| Summary of residual shares not included in the calculation of net income per share after residual equity adjustment because of no dilutive effect | Stock options granted on the basis of a resolution at the annual shareholders meeting held on June 20, 2014 (Number of shares: 200,000)<br><br>(Consolidated subsidiary)<br>Two types of subscription rights to shares as stock options (Number of the subscription rights to shares: 4,845,000 and 3,781,000) | Stock options granted on the basis of a resolution at the annual shareholders meeting held on June 15, 2012 (Number of shares: 152,000)<br><br>Stock options granted on the basis of a resolution at the annual shareholders meeting held on June 21, 2013 (Number of shares: 200,000)<br><br>(Consolidated subsidiary)<br>Two types of subscription rights to shares as stock options (Number of the subscription rights to shares: 4,845,000 and 3,781,000) |

(Important post-balance sheet events)

#### 1. Acquisition of treasury stock

At a meeting of the Board of Directors held on April 15, 2016, the Company resolved to acquire treasury stock under Paragraph 1 of Article 459 of the Companies Act and has acquired treasury stock. Details are as follows:

(1) Board of Directors' resolution on the acquisition of treasury stock

(i) Reason of the acquisition of treasury stock

To implement flexible capital policy in response to changes in the management environment

(ii) Class of stock to be acquired

Common stock

(iii) Number of shares that can be acquired

1,500 thousand shares (maximum)

(Ratio to the number of issued shares (excluding treasury stock): 2.28%)

(iv) Value of shares to be acquired

700 million yen (maximum)

(v) Acquisition period

From April 15, 2016 to October 14, 2016

(vi) Method of acquisition

Acquisition on the Tokyo Stock Exchange

Through the Tokyo Stock Exchange Trading Network Off-Auction Own Share Repurchase Trading System (ToSTNeT-3)

(2) Treasury stock acquired under the Board of Directors' resolution

(i) Number of shares acquired

1,500 thousand shares

(ii) Value of shares acquired

670 million yen

At a meeting of the Board of Directors held on June 22, 2016, the Company resolved to acquire treasury stock under Paragraph 1 of Article 459 of the Company Law. Details are as follows:

Board of Directors' resolution on the acquisition of treasury stock

(i) Reason of the acquisition of treasury stock

To implement flexible capital policy in response to changes in the management environment

(ii) Class of stock to be acquired

Common stock

(iii) Number of shares that can be acquired

2,000 thousand shares (maximum)

(Ratio to the number of issued shares (excluding treasury stock): 3.11%)

(vi) Value of shares to be acquired

900 million yen (maximum)

(v) Acquisition period

From June 22, 2016 to September 9, 2016

(vi) Method of acquisition

Acquisition on the Tokyo Stock Exchange

#### 2. Reduction of Legal Capital Surplus

At a meeting of the Board of Directors held on May 12, 2016, the Company resolved to propose, at the 113th annual shareholders meeting scheduled for June 22, 2016, a reduction of the legal capital surplus of the Company. This item was approved and resolved at the annual shareholders meeting. Details are as follows:

(1) Purpose of the reduction of the legal capital surplus

In order to ensure flexible and nimble future capital policies, in accordance with Article 448, Paragraph 1 of the Companies Act, it is proposed to reduce and transfer the legal capital surplus in the full amount to other capital surplus.

(2) Details of the reduction of the legal capital surplus

(i) Amount of the reduction of legal capital surplus

5,884,070,811 yen

(ii) Amount of the increase in other capital surplus

5,884,070,811 yen

(3) Effective date

July 29, 2016 (scheduled)

#### 3. Resolution on stock option

The company resolved to issue subscription rights to shares at the 113th annual shareholders meeting and at the Board of Directors meeting, held on June 22, 2016 respectively.

The details of the resolution are described in Section 4. Situation of Submitting Company, 1. Shares of the Company, (9) Stock option system, 22. Stock options based on a resolution at the annual shareholders meeting held on June 22, 2016 and 23. Stock options based on a resolution at a Board of directors meeting held on June 22, 2016.

(v) Consolidated supplementary schedule

Schedule of bonds

No corresponding item existed.

Schedule of borrowings

| Classification   | Balance at beginning of the fiscal year (million yen) | Balance at end of the fiscal year under review (million yen) | Average interest rate (%) | Repayment term    |
|--|---|--|---------------------------|-------------------|
| Short-term loans payable                                       | 6,855   | 6,127  | 3.41                      | --                |
| Lease obligations to be repaid within a year                   | 9   | 8  | --                        | --                |
| Lease obligations (excluding those to be repaid within a year) | 23  | 15   | --                        | From 2017 to 2019 |
| Total  | 6,887   | 6,151  | --                        | --                |

(Note) 1. The average interest rate is the weighted average rate for the borrowings at the end of the term.

2. The average interest rate of lease obligations is omitted, since lease obligations before the subtraction of the equivalent of interest included in total lease fees are posted in the consolidated balance sheets.

3. The table below shows scheduled repayments of lease obligations (excluding those to be repaid within a year) with five years of the consolidated closing date.

(Million yen)

|                   | More than 1 year, within 2 years | More than 2 years, within 3 years | More than 3 years, within 4 years | More than 4 years, within 5 years |
|-------------------|----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Lease obligations | 8                                | 5                                 | 1                                 | --                                |

Schedule of asset retirement obligations

Not stated under the provision of Article 92-2 of the Regulations for Consolidated Financial Statements, since asset retirement obligations are a hundredth or less of the sum of liabilities and net assets at the beginning and end of the fiscal year under review.

(2) Other

Quarterly information for the fiscal year under review

| (Accumulated total)   | First quarter<br>From April 1, 2015<br>to June 30, 2015 | First half<br>From April, 2015 to<br>September 30, 2015 | First nine months<br>From April, 2015 to<br>December 31, 2015 | Full year under<br>review<br>From April 1, 2015 to<br>March 31, 2016 |
|---|---|---|---|--|
| Net sales (million yen)   | 11,892  | 21,141  | 30,849  | 40,132   |
| Income before taxes and other<br>adjustments (million yen)                      | 1,003   | 887   | 1,095   | 1,190  |
| Net income attributable to<br>owners of parent on common<br>stock (million yen) | 721   | 679   | 814   | 877  |
| Net income per share (yen)  | 10.58   | 10.05   | 12.09   | 13.04  |

| (Quarterly)                           | First quarter<br>From April 1, 2015<br>to June 30, 2015 | Second quarter<br>From July 1, 2015<br>to September 30, 2015 | Third quarter<br>From October 1, 2015<br>to December 31, 2015 | Fourth quarter<br>From January 1, 2016<br>to March 31, 2016 |
|---------------------------------------|---|--|---|---|
| Net income or loss per share<br>(yen) | 10.58   | -0.63  | 2.02  | 0.94  |

2. Non-Consolidated Financial Statements, etc.

(1) Non-consolidated financial statements

(i) Non-consolidated balance sheets

|   | (Million yen)   |   |
|---|---|---|
|   | Figures at the end of the<br>previous fiscal year<br>(As of March 31, 2015) | Figures at the end of the fiscal<br>year under review<br>(As of March 31, 2016) |
| <b>Assets</b>   |   |   |
| Current assets  |   |   |
| Cash and deposits                                     | 2,889   | 2,710   |
| Trade notes receivable                                | *1 159  | *1 36   |
| Accounts receivable                                   | *1 8,430  | *1 5,939  |
| Merchandise and finished goods                        | 4,360   | 4,906   |
| Work in process                                       | 1,779   | 1,332   |
| Raw materials and supplies                            | 2,439   | 2,687   |
| Deferred tax assets                                   | 235   | 308   |
| Advance payments                                      | 2,059   | 0   |
| Consumption taxes receivable                          | 1,017   | 757   |
| Other   | *1 111  | *1 399  |
| Allowance for doubtful accounts                       | -67   | -51   |
| Total current assets                                  | 23,415  | 19,025  |
| Non-current assets                                    |   |   |
| Property, plant and equipment                         |   |   |
| Buildings   | 2,655   | 2,402   |
| Structures  | 74  | 62  |
| Machinery and equipment                               | 435   | 345   |
| Vehicles  | 2   | 1   |
| Tools, furniture and fixtures                         | 147   | 137   |
| Land  | 564   | 473   |
| Leased assets   | 27  | 19  |
| Total property, plant and equipment                   | 3,907   | 3,443   |
| Intangible assets                                     |   |   |
| Software  | 32  | 49  |
| Telephone subscription rights                         | 10  | 10  |
| Leased assets   | 3   | 2   |
| Total intangible assets                               | 45  | 62  |
| Investments and other assets                          |   |   |
| Investment securities                                 | 6,148   | 4,980   |
| Shares in affiliates                                  | 4,015   | 4,015   |
| Investments in capital of subsidiaries and associates | 1,077   | 1,056   |
| Long-term loans receivable from affiliates            | 348   | 608   |
| Long-term loans receivable from employees             | 1   | 1   |
| Other   | 91  | 88  |
| Total investments and other assets                    | 11,681  | 10,749  |
| Total non-current assets                              | 15,635  | 14,255  |
| Total assets  | 39,050  | 33,281  |

| (Million yen)   |   |   |
|---|---|---|
|   | Figures at the end of the<br>previous fiscal year<br>(As of March 31, 2015) | Figures at the end of the fiscal<br>year under review<br>(As of March 31, 2016) |
| <b>Liabilities</b>                                    |   |   |
| <b>Current liabilities</b>                            |   |   |
| Trade notes payable                                   | 3,987   | 3,100   |
| Accounts payable                                      | *1 1,746  | *1 1,539  |
| Accounts payable - other                              | *1 151  | *1 132  |
| Accrued expenses payable                              | 201   | 218   |
| Advance received                                      | 70  | 208   |
| Income taxes payable                                  | 404   | 23  |
| Provision for product warranties                      | 184   | 183   |
| Provision for bonuses                                 | 168   | 144   |
| Other   | *1 78   | *1 84   |
| <b>Total current liabilities</b>                      | <b>6,992</b>  | <b>5,634</b>  |
| <b>Non-current liabilities</b>                        |   |   |
| Deferred tax liabilities                              | 929   | 505   |
| Provision for retirement benefits                     | 575   | 516   |
| Other   | 58  | 50  |
| <b>Total non-current liabilities</b>                  | <b>1,563</b>  | <b>1,072</b>  |
| <b>Total liabilities</b>                              | <b>8,556</b>  | <b>6,707</b>  |
| <b>Net assets</b>                                     |   |   |
| <b>Shareholders' equity</b>                           |   |   |
| Capital stock   | 12,345  | 12,345  |
| Capital surplus                                       |   |   |
| Capital legal reserve                                 | 5,884   | 5,884   |
| Other capital surplus                                 | 5   | --  |
| <b>Total capital surplus</b>                          | <b>5,889</b>  | <b>5,884</b>  |
| Retained earnings                                     |   |   |
| Other retained earnings                               |   |   |
| Deferred retained earnings                            | 11,480  | 10,665  |
| <b>Total retained earnings</b>                        | <b>11,480</b>   | <b>10,665</b>   |
| Treasury stock  | -2,738  | -4,837  |
| <b>Total shareholders' equity</b>                     | <b>26,977</b>   | <b>24,057</b>   |
| <b>Valuation and translation adjustments</b>          |   |   |
| Valuation difference on available-for-sale securities | 2,798   | 1,779   |
| <b>Total Valuation and translation adjustments</b>    | <b>2,798</b>  | <b>1,779</b>  |
| Subscription rights to shares                         | 718   | 736   |
| <b>Total net assets</b>                               | <b>30,494</b>   | <b>26,574</b>   |
| <b>Total liabilities and net assets</b>               | <b>39,050</b>   | <b>33,281</b>   |



(ii) Non-consolidated statements of income

(Million yen)

|  | Previous fiscal year<br>(From April 1, 2014<br>to March 31, 2015) | Fiscal year under review<br>(From April 1, 2015<br>to March 31, 2016) |
|--|---|---|
| Net sales  | *1 34,992   | *1 31,852   |
| Cost of sales  | *1 30,005   | *1 27,919   |
| Gross profit   | 4,986   | 3,933   |
| Selling, general and administrative expenses                               | *2 3,806  | *2 4,118  |
| Operating income   | 1,179   | -184  |
| Non-operating income   |   |   |
| Interest income  | 79  | 10  |
| Dividend income  | 164   | 581   |
| Rent income  | 51  | 55  |
| Reversal of allowance for doubtful accounts                                | 76  | 15  |
| Foreign exchange gains   | 1,108   | --  |
| Insurance income   | 33  | 43  |
| Other  | 72  | 62  |
| Total non-operating income   | *1 1,584  | *1 769  |
| Non-operating expenses   |   |   |
| Interest expenses  | 18  | 10  |
| Leased asset expenses  | 32  | 40  |
| Foreign exchange losses  | --  | 108   |
| Sales discount   | 6   | 6   |
| Amortization of stock issuance cost  | 5   | --  |
| Loss on sales of notes payable   | 69  | 81  |
| Other  | 109   | 83  |
| Total non-operating expenses   | 241   | 331   |
| Ordinary income  | 2,522   | 252   |
| Extraordinary income   |   |   |
| Gain on sales of non-current assets  | 25  | --  |
| Gain on sales of investment securities                                     | 2   | 2   |
| Gain on reversal of subscription rights to shares                          | --  | 49  |
| Total extraordinary income   | 27  | 51  |
| Extraordinary losses   |   |   |
| Loss on retirement of non-current assets                                   | 4   | 0   |
| Impairment loss  | 60  | 111   |
| Loss on valuation of investments in capital of subsidiaries and associates | --  | 21  |
| Total extraordinary losses   | 65  | 133   |
| Income before taxes and other adjustments                                  | 2,484   | 171   |
| Corporate, inhabitant and enterprise taxes                                 | 641   | 23  |
| Refund of income taxes   | --  | -99   |
| Deferred taxes   | 145   | -46   |
| Total corporate and other taxes  | 786   | -121  |
| Net income   | 1,698   | 292   |

(iii) Non-consolidated statements of changes in net assets

Previous consolidated fiscal year (from April 1, 2014 to March 31, 2015)

(Million yen)

|   | Shareholders' equity |                       |                       |                       |                            |                |                            |
|---|----------------------|-----------------------|-----------------------|-----------------------|----------------------------|----------------|----------------------------|
|   | Capital stock        | Capital surplus       |                       |                       | Retained earnings          | treasury stock | Total shareholders' equity |
|   |                      | Capital legal reserve | Other capital surplus | Total capital surplus | Other retained earnings    |                |                            |
|   |                      |                       |                       |                       | Deferred retained earnings |                |                            |
| Balance as of March 31, 2014  | 12,345               | 5,884                 | 5                     | 5,889                 | 10,540                     | -1,079         | 27,695                     |
| Cumulative effects of changes in accounting policies                          |                      |                       |                       |                       | 108                        |                | 108                        |
| Restated balance  | 12,345               | 5,884                 | 5                     | 5,889                 | 10,648                     | -1,079         | 27,804                     |
| Change during the fiscal year   |                      |                       |                       |                       |                            |                |                            |
| Cash dividends paid   |                      |                       |                       |                       | -866                       |                | -866                       |
| Net income  |                      |                       |                       |                       | 1,698                      |                | 1,698                      |
| Purchase of treasury stock  |                      |                       |                       |                       |                            | -1,848         | -1,848                     |
| Disposal of treasury stock  |                      |                       | 0                     | 0                     |                            | 189            | 189                        |
| Changes in items other than shareholders' equity during the fiscal year (net) |                      |                       |                       |                       |                            |                |                            |
| Total change during the fiscal year   | --                   | --                    | 0                     | 0                     | 832                        | -1,658         | -826                       |
| Balance as of March 31, 2015  | 12,345               | 5,884                 | 5                     | 5,889                 | 11,480                     | -2,738         | 26,977                     |

|   | Valuation and translation adjustments                 |   | Subscription rights to shares | Total net assets |
|---|---|---|-------------------------------|------------------|
|   | Valuation difference on available-for-sale securities | Total valuation and translation adjustments |                               |                  |
| Balance as of March 31, 2014  | 1,391   | 1,391                                       | 605                           | 29,692           |
| Cumulative effects of changes in accounting policies                          |   |   |                               | 108              |
| Restated balance  | 1,391   | 1,391                                       | 605                           | 29,801           |
| Change during the fiscal year   |   |   |                               |                  |
| Cash dividends paid   |   |   |                               | -866             |
| Net income  |   |   |                               | 1,698            |
| Purchase of treasury stock  |   |   |                               | -1,848           |
| Disposal of treasury stock  |   |   |                               | 189              |
| Changes in items other than shareholders' equity during the fiscal year (net) | 1,406   | 1,406                                       | 113                           | 1,519            |
| Total change during the fiscal year   | 1,406   | 1,406                                       | 113                           | 693              |
| Balance as of March 31, 2015  | 2,798   | 2,798                                       | 718                           | 30,494           |

Consolidated fiscal year under review (from April 1, 2015 to March 31, 2016)

(Million yen)

|   | Shareholders' equity |                       |                       |                       |   |                |                            |
|---|----------------------|-----------------------|-----------------------|-----------------------|---|----------------|----------------------------|
|   | Capital stock        | Capital surplus       |                       |                       | Retained earnings                                     | treasury stock | Total shareholders' equity |
|   |                      | Capital legal reserve | Other capital surplus | Total capital surplus | Other retained earnings<br>Deferred retained earnings |                |                            |
| Balance as of March 31, 2015  | 12,345               | 5,884                 | 5                     | 5,889                 | 11,480  | -2,738         | 26,977                     |
| Cumulative effects of changes in accounting policies                          |                      |                       |                       |                       | --  |                | --                         |
| Restated balance  | 12,345               | 5,884                 | 5                     | 5,889                 | 11,480  | -2,738         | 26,977                     |
| Change during the fiscal year   |                      |                       |                       |                       |   |                |                            |
| Cash dividends paid   |                      |                       |                       |                       | -1,092  |                | -1,092                     |
| Net income  |                      |                       |                       |                       | 292   |                | 292                        |
| Purchase of treasury stock  |                      |                       |                       |                       |   | -2,238         | -2,238                     |
| Disposal of treasury stock  |                      |                       | -5                    | -5                    | -15   | 140            | 118                        |
| Changes in items other than shareholders' equity during the fiscal year (net) |                      |                       |                       |                       |   |                |                            |
| Total change during the fiscal year   | --                   | --                    | -5                    | -5                    | -815  | -2,098         | -2,920                     |
| Balance as of March 31, 2016  | 12,345               | 5,884                 | --                    | 5,884                 | 10,665  | -4,837         | 24,057                     |

|   | Valuation and translation adjustments                 |   | Subscription rights to shares | Total net assets |
|---|---|---|-------------------------------|------------------|
|   | Valuation difference on available-for-sale securities | Total valuation and translation adjustments |                               |                  |
| Balance as of March 31, 2015  | 2,798   | 2,798                                       | 718                           | 30,494           |
| Cumulative effects of changes in accounting policies                          |   |   |                               | --               |
| Restated balance  | 2,798   | 2,798                                       | 718                           | 30,494           |
| Change during the fiscal year   |   |   |                               |                  |
| Cash dividends paid   |   |   |                               | -1,092           |
| Net income  |   |   |                               | 292              |
| Purchase of treasury stock  |   |   |                               | -2,238           |
| Disposal of treasury stock  |   |   |                               | 118              |
| Changes in items other than shareholders' equity during the fiscal year (net) | -1,018  | -1,018                                      | 17                            | -1,000           |
| Total change during the fiscal year   | -1,018  | -1,018                                      | 17                            | -3,920           |
| Balance as of March 31, 2016  | 1,779   | 1,779                                       | 736                           | 26,574           |

## Significant accounting policies

### 1. Valuation standards for securities

#### (1) Stocks of subsidiaries and affiliates

Cost accounting method using the moving average method

#### (2) Other securities

Securities with fair market value:

Market value method based on the quoted market value on the closing date of the fiscal year (Valuation differences are directly charged or credited to shareholders' equity, and the cost of securities sold is calculated using the moving-average method.)

Securities without fair market value:

Cost accounting method using the moving average method

### 2. Valuation standard and method for derivatives

Market value method

### 3. Valuation standard and method for inventories

Primarily cost accounting method using the moving average method (The values in the balance sheet were calculated using the book-value write-down method based on the decline of profitability.)

### 4. Depreciation method for Non-current assets

#### (1) Property, plant and equipment (excluding leased assets)

Depreciation is principally computed by the declining-balance method.

However, buildings acquired on or after April 1, 1998, excluding fittings and equipment are depreciated on a straight-line basis.

The significant service lives are summarized as follows:

Buildings: 15-38 years

Machinery and equipment: 9 years

Tools, furniture and fixtures: 5 years

#### (2) Intangible assets (excluding leased assets)

Intangible assets are amortized using the straight-line method.

However, software for in-house use is amortized on a straight-line basis over the expected usable period, up to five years.

#### (3) Leased assets

Depreciation for leased assets is computed using the straight-line method over the lease terms as service life, assuming no residual value.

#### (4) Long-term prepaid expenses

This is computed using the straight-line method.

### 5. Accounting standards for translating assets or liabilities in foreign currencies into yen

Monetary assets and liabilities denominated in foreign currencies are translated into yen at spot exchange rates at the closing date.

### 6. Accounting standards for allowances

#### (1) Allowance for doubtful accounts

To provide for a loss on doubtful accounts, general allowances are provided using a rate determined by past experience with bad debts. Specific allowances are provided for the estimated amounts considered to be uncollectible after reviewing the individual collectability of certain doubtful accounts.

#### (2) Allowance for employees' bonuses

To provide for the payment of employees' bonuses, the Company provides accrued bonuses for employees based on the projected amount for the fiscal year under review.

#### (3) Allowance for retirement benefits

To prepare for the payment of employee retirement benefits, the Company provides accrued retirement benefits based on projected benefits obligations and the fair value of pension assets at end of the fiscal year under review.

Any actuarial difference is expensed equally from the fiscal year following its accrual over an average remaining service period (5 years) of employees at the time of the accrual using the straight-line method.

#### (4) Allowance for product warranties

To provide for expenses for repair cost that arise in the after-sales free-repair warranty period, the Company accrues repair expenses using an amount projected based on the past ratio of repairs.

7. Hedge accounting method

(1) Hedge accounting method

Deferred hedge accounting was adopted. In addition, a method for translating foreign currency receivables and payables based on yen-value cash flows fixed by forward contracts was adopted for hedging the risk of exchange rate fluctuations in cases where requirements for using the method were fulfilled.

(2) Hedging instrument and hedged item

Hedge accounting was applied to the following hedging instrument and hedged item during the fiscal year under review.

Hedging instrument: exchange contracts

Hedged item: foreign currency receivables

(3) Hedging policy

Hedging was performed within the scope of subject receivables for avoiding the risk of exchange rate fluctuations and establishing profit/loss.

(4) Method for assessing hedging effectiveness

An assessment of hedging effectiveness is omitted because the hedging instrument and an important requirement for the hedged item are the same and hedging is assumed to completely offset market fluctuations at the point of its launch and in the subsequent period.

8. Other important matters for the preparation of financial statements

(1) Accounting policy for retirement benefits

Unrecognized actuarial gain or loss and unsettled difference at change of accounting principle in relation to retirement benefits are accounted for by a different method than the method used in the consolidated financial statements.

(2) Accounting method for consumption taxes

The tax-exclusion method is used for the calculation of consumption tax and local consumption tax, and consumption tax and local consumption tax not subject to deduction are treated as expenses in the consolidated fiscal year under review.

(Changes in Accounting Policy)

(Application of Accounting Standard for Business Combinations)

From the fiscal year under review, the Company is applying the Accounting Standard for Business Combinations (ASBJ Statement No. 21; September 13, 2013) and the Accounting Standard for Business Divestitures (ASBJ Statement No. 7; September 13, 2013). Under the newly-applied accounting standards, the Company shall post expenses related to acquisitions as expenses in a fiscal year when they are incurred. Any review of the allocation of the acquisition cost in provisional accounting of a business combination from the beginning of the fiscal year under review shall be reflected in financial statements for the half in which the date of the business combination belongs.

The application of the Accounting Standard for Business Combinations, etc. follows the transitional treatment set force in Paragraph 58-2 (4) of the Accounting Standard for Business Combinations and Paragraph 57-4 (4) of the Accounting Standard for Business Divestitures, and the accounting standards are applied from the beginning of the fiscal year under review.

The application of the accounting standards has no impact on the Non-Consolidated Financial Statements.

(Changes in Method of Presentation)

(Balance sheets)

"Advances received" which had been included in "Other" of the current liabilities in the previous fiscal year, was posted as a separate item in the fiscal year under review because of an increase in its importance in terms of the amount. To reflect the change in the method of presentation, the Company changed the financial statements for the previous fiscal year.

As a result, "Other" of 148 million yen in the current liabilities in the balance sheets for the previous fiscal year was divided into "Advances received" of 70 million yen and "Other" of 78 million yen.

(Statements of Income)

"Payment fee" had been posted as a separate item in the previous fiscal year, was included in "Other" of the non-operating expenses in the fiscal year under review because of the amount decrease in its importance in terms of the amount. To reflect the changes in the method of presentation, the Company changed the financial statements for the previous fiscal year.

As a result, "Payment fee" of 30 million yen and "Other" of 79 million yen in the non-operating expenses in the statements of income for the previous fiscal year was include in "Other" of 109 million yen.

(Non-consolidated balance sheets)

\*1. Notes relating to subsidiaries and affiliates

The following shows major transactions with subsidiaries and affiliates that are included in accounts other than those posted as independent items. (Million yen)

|                                 | Previous fiscal year<br>(As of March 31, 2015) | Fiscal year under review<br>(As of March 31, 2016) |
|---------------------------------|--|--|
| Short-term monetary receivables | 6,992  | 2,439  |
| Short-term monetary payables    | 74   | 594  |

2. Amount of discount for bills receivable

(Million yen)

|  | Previous fiscal year<br>(As of March 31, 2015) | Fiscal year under review<br>(As of March 31, 2016) |
|--|--|--|
| Amount of discount for bills receivable        | 985  | 1,395  |
| Amount of discount for export bills receivable | 2,269  | 2,128  |

(Non-consolidated statements of income)

\*1. Net sales, amount of purchases and other in relation to transactions with subsidiaries and affiliates

(Million yen)

|  | Previous fiscal year<br>(from April 1, 2014 to March 31, 2015) | Fiscal year under review<br>(from April 1, 2015 to March 31, 2016) |
|--|--|--|
| Net sales  | 15,727   | 11,739   |
| Amount of purchases  | 10,100   | 11,263   |
| Amount of transactions other than<br>business transactions | 179  | 469  |

\*2. Selling expenses accounted for approximately 27% of total expenses in the previous fiscal year and approximately 25% in the fiscal year under review. General and administrative expenses accounted for approximately 73% of total expenses in the previous fiscal year and approximately 75% in the fiscal year under review.

The major components of selling, general and administrative expenses and their amounts are as follows:

(Million yen)

|                                   | Previous fiscal year<br>(from April 1, 2014 to March 31, 2015) | Fiscal year under review<br>(from April 1, 2015 to March 31, 2016) |
|-----------------------------------|--|--|
| Salaries and allowances           | 651  | 760  |
| Provision for bonuses             | 26   | 47   |
| Retirement benefit expenses       | 62   | 31   |
| Research and development expenses | 1,091  | 1,053  |
| Depreciation                      | 13   | 11   |
| Provision for product warranties  | 184  | 183  |

(Securities)

Previous fiscal year (As of March 31, 2015)

Shares in subsidiaries (whose balance sheet amount is 4,003 million yen) and shares in affiliates (whose balance sheet amount is 11 million yen) do not have any market prices, and determining their fair values is considered very difficult. They are therefore omitted.

Fiscal year under review (As of March 31, 2016)

Shares in subsidiaries (whose balance sheet amount is 4,003 million yen) and shares in affiliates (whose balance sheet amount is 11 million yen) do not have any market prices, and determining their fair values is considered very difficult. They are therefore omitted.

(Deferred Tax Accounting)

| 1. Breakdown of deferred tax assets and deferred tax liabilities by major cause | (Million yen)                                  |  |
|---|--|--|
|   | Previous fiscal year<br>(As of March 31, 2015) | Fiscal year under review<br>(As of March 31, 2016) |
| Deferred tax assets   |  |  |
| Allowance for doubtful accounts   | 22   | 16   |
| Provision for bonuses   | 53   | 43   |
| Reserve for retirement benefits   | 180  | 153  |
| Provision for product warranties  | 59   | 54   |
| Loss on devaluation of investment securities                                    | 125  | 118  |
| Loss on devaluation of stocks of subsidiaries and affiliates                    | 7  | 7  |
| Loss on devaluation of inventories  | 15   | 112  |
| Impairment loss   | 68   | 44   |
| Accrued enterprise taxes  | 39   | 6  |
| Stock-based compensation expense  | 172  | 180  |
| Additional amount relating to transfer of shares                                | 875  | 831  |
| Foreign tax credit carried forward  | --   | 38   |
| Other   | 78   | 75   |
| Deferred tax assets subtotal  | 1,698  | 1,682  |
| Valuation reserve   | -1,282   | -1,221   |
| Deferred tax assets total   | 415  | 461  |
| Deferred tax liabilities  |  |  |
| Valuation difference on available-for-sale securities                           | -1,109   | -658   |
| Deferred tax liabilities total  | -1,109   | -658   |
| Net deferred tax assets (liabilities)   | -694   | -197   |

2. Breakdown of difference between the legally effective tax rate and the actual effective tax rate after applying tax effect accounting by major cause

|   | Previous fiscal year<br>(As of March 31, 2015) | Fiscal year under review<br>(As of March 31, 2016) |
|---|--|--|
| Legally effective tax rate  | 35.6%  | 32.1%  |
| (Adjustments)   |  |  |
| Residence tax on a per capita basis   | 0.6%   | 8.6%   |
| Experiment and research expenses  | -2.2%  | -0.9%  |
| Tax sparing   | -7.0%  | -80.1%   |
| Items permanently excluded from nontaxable expenses,<br>including entertainment costs | 5.4%   | 34.6%  |
| Items permanently excluded from gross revenue including<br>Dividend income            | -1.7%  | -83.3%   |
| Increase (decrease) in valuation reserve  | 2.7%   | 2.3%   |
| Change of tax rate  | 2.0%   | 16.1%  |
| Income taxes for prior periods  | -3.2%  | --   |
| Other   | -0.6%  | -0.3%  |
| Actual effective tax rate after applying tax effect accounting                        | 31.6%  | -70.9%   |

3. Revision to deferred tax assets and deferred tax liabilities associated with changes in corporate income tax rates etc.

On March 29, 2016, the Act for Partial Revision of the Income Tax Act, etc. (Act No. 15 of 2016) and the Act for Partial Revision of the Local Taxation Act, etc. (Act No. 13 of 2016) were enacted in the Diet session, and the corporate income tax rates are lowered from fiscal years beginning on or after April 1, 2016. The statutory tax rates used in the calculation of deferred tax assets and deferred tax liabilities, 31.3%, become 29.9% for temporary differences that will be eliminated in the fiscal year starting April 1, 2016 and the fiscal year starting April 1, 2017 and 29.7% for temporary differences that will be eliminated in the fiscal year starting April 1, 2018 and subsequent years.

Because of the changes in tax rates, deferred tax liabilities (less deferred tax assets) have declined 8 million yen, and income taxes-deferred and the valuation difference on available-for-sale securities have risen 27 million yen and 35 million yen, respectively.



(Business Combination)

Not applicable.

(Important post-balance sheet events)

1. Acquisition of treasury stock

At a meeting of the Board of Directors held on April 15, 2016, the Company resolved to acquire treasury stock under Paragraph 1 of Article 459 of the Companies Act and has acquired treasury stock. Details are as follows:

(1) Board of Directors' resolution on the acquisition of treasury stock

(i) Reason of the acquisition of treasury stock

To implement flexible capital policy in response to changes in the management environment

- |   |  |
|---|--|
| (ii) Class of stock to be acquired          | Common stock   |
| (iii) Number of shares that can be acquired | 1,500 thousand shares (maximum)<br>(Ratio to the number of issued shares (excluding treasury stock): 2.28%)  |
| (iv) Value of shares to be acquired         | 700 million yen (maximum)  |
| (v) Acquisition period                      | From April 15, 2016 to October 14, 2016  |
| (vi) Method of acquisition                  | Acquisition on the Tokyo Stock Exchange<br>Through the Tokyo Stock Exchange Trading Network Off-Auction Own<br>Share Repurchase Trading System (ToSTNeT-3) |

(2) Treasury stock acquired under the Board of Directors' resolution

- |                               |                       |
|-------------------------------|-----------------------|
| (i) Number of shares acquired | 1,500 thousand shares |
| (ii) Value of shares acquired | 670 million yen       |

At a meeting of the Board of Directors held on June 22, 2016, the Company resolved to acquire treasury stock under Paragraph 1 of Article 459 of the Company Law. Details are as follows:

Board of Directors' resolution on the acquisition of treasury stock

(i) Reason of the acquisition of treasury stock

To implement flexible capital policy in response to changes in the management environment

- |   |   |
|---|---|
| (ii) Class of stock to be acquired          | Common stock  |
| (iii) Number of shares that can be acquired | 2,000 thousand shares (maximum)<br>(Ratio to the number of issued shares (excluding treasury stock): 3.11%) |
| (vi) Value of shares to be acquired         | 900 million yen (maximum)   |
| (v) Acquisition period                      | From June 22, 2016 to September 9, 2016   |
| (vi) Method of acquisition                  | Acquisition on the Tokyo Stock Exchange   |

2. Reduction of Legal Capital Surplus

At a meeting of the Board of Directors held on May 12, 2016, the Company resolved to propose, at the 113th annual shareholders meeting scheduled for June 22, 2016, a reduction of the legal capital surplus of the Company. This item was approved and resolved at the annual shareholders meeting. Details are as follows:

(1) Purpose of the reduction of the legal capital surplus

In order to ensure flexible and nimble future capital policies, in accordance with Article 448, Paragraph 1 of the Companies Act, it is proposed to reduce and transfer the legal capital surplus in the full amount to other capital surplus.

(2) Details of the reduction of the legal capital surplus

- |  |                           |
|--|---------------------------|
| (i) Amount of the reduction of legal capital surplus | 5,884,070,811 yen         |
| (ii) Amount of the increase in other capital surplus | 5,884,070,811 yen         |
| (3) Effective date                                   | July 29, 2016 (scheduled) |

3. Resolution on stock option

The company resolved to issue subscription rights to shares at the 113th annual shareholders meeting and at the Board of Directors meeting, held on June 22, 2016 respectively.

The details of the resolution are described in Section 4. Situation of Submitting Company, 1. Shares of the Company, (9) Stock option system, 22. Stock options based on a resolution at the annual shareholders meeting held on June 22, 2016 and 23. Stock options based on a resolution at a Board of directors meeting held on June 22, 2016.

(iv) Supplementary schedule

Schedule of Property, plant and equipment and other assets

(Million yen)

|  | Assets at beginning of the fiscal year under review | Increase in the fiscal year under review | Decrease in the fiscal year under review | Depreciation or amortization in the fiscal year under review | Assets at end of the fiscal year under review | Accumulated depreciation or amortization at end of the fiscal year under review |
|--|---|--|--|--|---|---|
| Property, plant and equipment              |   |  |  |  |   |   |
| Buildings                                  | 2,655   | 10                                       | 122<br>(82)                              | 141  | 2,402   | 3,918   |
| Structures                                 | 74  | --                                       | 0  | 11   | 62  | 403   |
| Machinery and equipment                    | 435   | 17                                       | 0  | 107  | 345   | 4,348   |
| Vehicles                                   | 2   | --                                       | --                                       | 1  | 1   | 37  |
| Tools, furniture and fixtures              | 147   | 65                                       | 0  | 75   | 137   | 706   |
| Land                                       | 564   | --                                       | 91<br>(29)                               | --   | 473   | --  |
| Leased assets                              | 27  | --                                       | --                                       | 7  | 19  | 18  |
| Total Property, plant and equipment assets | 3,907   | 94                                       | 213<br>(111)                             | 344  | 3,443   | 9,432   |
| Intangible assets                          |   |  |  |  |   |   |
| Software                                   | 32  | 35                                       | --                                       | 18   | 49  |   |
| Telephone subscription rights              | 10  | --                                       | --                                       | --   | 10  |   |
| Leased assets                              | 3   | --                                       | --                                       | 1  | 2   |   |
| Total Intangible assets                    | 45  | 35                                       | --                                       | 19   | 62  |   |

(Note) 1. The following is major items that were added in the fiscal year under review:

Tools, furniture and fixtures    Nagaoka factory    Replacement of production management system    20 million yen

2. The following is major items that were reduced in the fiscal year under review:

Buildings    Apartments for unmarried employees    Decrease from sale and impairment loss    122 million yen  
 Land    Apartments for unmarried employees    Decrease from sale and impairment loss    91 million yen

3. The figure in parentheses at the Decrease in the fiscal year under review column is the amount of impairment loss.

Schedule of allowances

(Million yen)

| Classification                   | Assets at beginning of the fiscal year under review | Increase in fiscal year under review | Decrease in fiscal year under review (other reasons) | Assets at end of fiscal year under review |
|----------------------------------|---|--------------------------------------|--|---|
| Allowance for doubtful accounts  | 69  | 54                                   | 69   | 54  |
| Provision for product warranties | 168   | 144                                  | 168  | 144                                       |
| Provision for bonuses            | 184   | 183                                  | 184  | 183                                       |

(2) Details of major items in assets and liabilities

Information is omitted as consolidated financial statements were prepared.

(3) Other

Not applicable.

## Section 6. Outline of Stock-Related Administration of Submitting Company

|   |   |
|---|---|
| Fiscal year                                   | From April 1 to March 31  |
| Annual shareholders meeting                   | In June   |
| Record date                                   | March 31  |
| Record dates for dividends                    | September 30<br>March 31  |
| Number of shares per unit                     | 1,000 shares  |
| Fractional share repurchase<br>Handling place | (Special purpose account)<br>Securities Transfer Department, Mitsubishi UFJ Trust and Banking Corporation<br>1-4-5, Marunouchi, Chiyoda-ku, Tokyo   |
| Administrator of shareholders' list           | (Special purpose account)<br>Mitsubishi UFJ Trust and Banking Corporation<br>1-4-5, Marunouchi, Chiyoda-ku, Tokyo   |
| Contact place                                 | -----   |
| Repurchase fee                                | Amount specified separately that is equivalent to brokerage commissions for stock trading   |
| Publication of announcements                  | Notices will be posted in electric format. However, notices will be published in the <i>Kanpou</i> (Government Newsletter) when it is impossible to make electric notification for unavoidable reasons. |
| Benefits to shareholders                      | None  |

(Note) Under the Articles of Incorporation, holders of shares less than one unit do not have any rights other than the rights stipulated in each item of Paragraph 2 of Article 189 of the Companies Act, the right to demand specified in Article 166, Paragraph 1 of the Companies Act, and the right to receive allotments of shares for subscription and invitation to subscription in accordance with the number of shares owned by each shareholder.

## Section 7. Reference Information on Submitting Company

### 1. Information on the parent company of the submitting company

The Company does not have any parent company stipulated in Article 24-7, Paragraph 1 of the Financial Instruments and Exchange Act.

### 2. Other reference information

The Company has submitted the following documents from the beginning of the fiscal year under review to the date of submission of the annual securities report:

(1) Annual securities report, and its attached documents and confirmation documents

112th fiscal year (from April 1, 2014 to March 31, 2015) Submitted to the director general of the Kanto Finance Bureau on June 19, 2015

(2) Internal control report and its attached documents

Submitted to the director general of the Kanto Finance Bureau on June 19, 2015

(3) Quarterly reports and confirmation documents

1st quarter of the 113th fiscal year (from April 1, 2015 to June 30, 2015) Submitted to the director general of the Kanto Finance Bureau on August 7, 2015

2nd quarter of the 113th fiscal year (from July 1, 2015 to September 30, 2015) Submitted to the director general of the Kanto Finance Bureau on November 13, 2015

3rd quarter of the 113th fiscal year (from October 1, 2015 to December 31, 2015) Submitted to the director general of the Kanto Finance Bureau on February 12, 2016

(4) Extraordinary report

Submitted to the director general of the Kanto Finance Bureau on June 23, 2015

An extraordinary report under Article 19, Paragraph 2, Item 2-2 of the Cabinet Office Ordinance Concerning Disclosure of Corporate Affairs, Etc. (Results of exercise of voting rights at the annual shareholders meeting)

(5) Report on state of purchase of Treasury stock

Reporting period (from June 1, 2015 to June 30, 2015) Submitted to Director General of Kanto Finance Bureau on July 14, 2015

Reporting period (from July 1, 2015 to July 31, 2015) Submitted to Director General of Kanto Finance Bureau on August 13, 2015

Reporting period (from August 1, 2015 to August 31, 2015) Submitted to Director General of Kanto Finance Bureau on September 11, 2015

Reporting period (from September 1, 2015 to September 30, 2015) Submitted to Director General of Kanto Finance Bureau on October 14, 2015

Reporting period (from October 1, 2015 to October 31, 2015) Submitted to Director General of Kanto Finance Bureau on November 13, 2015

Reporting period (from November 1, 2015 to November 30, 2015) Submitted to Director General of Kanto Finance Bureau on December 14, 2015

Reporting period (from December 1, 2015 to December 31, 2015) Submitted to Director General of Kanto Finance Bureau on January 14, 2016

Reporting period (from January 1, 2016 to January 31, 2016) Submitted to Director General of Kanto Finance Bureau on February 12, 2016

Reporting period (from February 1, 2016 to February 29, 2016) Submitted to Director General of Kanto Finance Bureau on March 14, 2016

Reporting period (from March 1, 2016 to March 31, 2016) Submitted to Director General of Kanto Finance Bureau on April 14, 2016

Reporting period (from April 1, 2016 to April 30, 2016) Submitted to Director General of Kanto Finance Bureau on May 12, 2016

Reporting period (from May 1, 2016 to May 31, 2016) Submitted to Director General of Kanto Finance Bureau on June 14, 2016

## **Chapter 2. Information on the Guarantee Company of the Submitting Company**

Not applicable.

Audit Report and Internal Control Audit Report of Independent Auditor

June 22, 2015

Board of Directors  
Tsugami Corporation

Ernst & Young ShinNihon LLC

Designated and engagement partner with limited liability  
Certified public accountant Naoki Nomoto

Designated and engagement partner with limited liability  
Certified public accountant Kazunari Tsukada

Designated and engagement partner with limited liability  
Certified public accountant Eishi Daikoku

(Financial statements audit)

We have audited the consolidated financial statements—balance sheets, statements of income, statements of changes in net assets, statements of cash flows, and supplementary schedules—of Tsugami Corporation for the fiscal year from April 1, 2015 to March 31, 2016, which are stated in the Financial Status section, for audit certification under the provision of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

Responsibility of management for consolidated financial statements

Management is responsible for preparing and appropriately presenting consolidated financial statements in compliance with business accounting standards generally accepted in Japan. This includes the development and operation of internal control which management deems necessary for preparing and appropriately presenting consolidated financial statements that do not have material misstatements due to wrong doing or error.

Responsibility of the auditor

This audit corporation is responsible for expressing its opinions on the consolidated financial statements from an independent position based on audits it conducted. We conducted our audits in accordance with auditing standards generally accepted in Japan. Such auditing standards require this audit corporation to formulate an audit plan to obtain reasonable assurance for the absence of material misstatements in these consolidated financial statements and conduct audits based on the audit plan.

In the audits, procedures to obtain audit evidence for the amounts and disclosure of consolidated financial statements are conducted. The audit procedures are selected and applied based on an evaluation of the risk of material misstatements in these consolidated financial statements due to wrongdoing or error. Although the purpose of the audits is not to express our opinions on the effectiveness of internal control, we examine the internal control related to the preparation and appropriate presentation of consolidated financial statements to design appropriate audit procedures in accordance with circumstances for implementing the risk evaluation. The audits also include an examination of the presentation of consolidated financial statements as a whole, including accounting policies adopted by management and the application method thereof and an evaluation of estimates made by management.

We believe that we have obtained sufficient and appropriate audit evidence that will become a basis upon which to express our opinion.

Auditor's opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tsugami Corporation and subsidiaries As of March 31, 2016 and the consolidated results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in Japan.

(Internal control audit)

We have audited the internal control report of Tsugami Corporation As of March 31, 2016 for audit certification under the provision of Article 193-2, Paragraph 2 of the Financial Instruments and Exchange Act.

Responsibility of management for internal control report

Management is responsible for development and operation of internal control, and preparing and appropriately presenting internal

control report in accordance with assessing standards generally accepted in Japan concerning internal control over financial reporting. The internal control over financial reporting might not be able to prevent or detect misstatements in financial reporting completely.

#### Responsibility of the auditor

This audit corporation is responsible for expressing its opinions on the internal control report from an independent position based on audits it conducted. We conducted our internal control audit in accordance with auditing standards generally accepted in Japan concerning internal control over financial reporting. Such auditing standards require this audit corporation to formulate an audit plan to obtain reasonable assurance for the absence of material misstatements in this internal control report and conduct audits based on the audit plan.

In the audits, procedures to obtain audit evidence for the assessment results of internal control over financial reporting in internal control report are conducted. The audit procedures are selected and applied based on a significance of effect on the reliability of financial reports. The audits also include an examination of the presentation of internal control report as a whole, including statements made by management about the scope of the assessment of internal control over financial reporting, assessment procedure, and assessment results. We believe that we have obtained sufficient and appropriate audit evidence that will become a basis upon which to express our opinion.

#### Auditor's opinion

In our opinion, the internal control report in which Tsugami Corporation states that the internal control over financial reporting As of March 31, 2016 is valid presents fairly, in all material respects, the Company's evaluation of its internal control over financial reporting, in conformity with standards for assessment concerning internal control over financial reporting generally accepted in Japan.

#### Interest

The Company, the auditing corporation, and the engagement partners have no interests between them that should be stated under the provisions of the Certified Public Accountants Act.

1. The reports above are an electronic presentation of the original audit report. The Company (company submitting the annual securities report) keeps the original separately.
2. XBRL data are not included in the scope of consolidated financial statements.



Independent Auditor's Report

June 22, 2016

Board of Directors  
Tsugami Corporation

Ernst & Young ShinNihon LLC

Designated and engagement partner with limited liability  
Certified public accountant Naoki Nomoto

Designated and engagement partner with limited liability  
Certified public accountant Kazunari Tsukada

Designated and engagement partner with limited liability  
Certified public accountant Eishi Daikoku

We have audited the financial statements—balance sheets, statements of income, statements of changes in net assets, and supplementary schedules—of Tsugami Corporation for the 113th fiscal year from April 1, 2015 to March 31, 2016.

**Responsibility of management for financial statements**

Management is responsible for preparing and appropriately presenting consolidated financial statements in compliance with business accounting standards generally accepted in Japan. This includes the development and operation of internal control which management deems necessary for preparing and appropriately presenting consolidated financial statements that do not have material misstatements due to wrong doing or error.

**Responsibility of the auditor**

This audit corporation is responsible for expressing its opinions on the financial statements from an independent position based on audits it conducted. We conducted our audits in accordance with auditing standards generally accepted in Japan. Such auditing standards require this audit corporation to formulate an audit plan to obtain reasonable assurance for the absence of material misstatements in these financial statements and conduct audits based on the audit plan.

In the audits, procedures to obtain audit evidence for the amounts and disclosure of financial statements are conducted. The audit procedures are selected and applied based on an evaluation of the risk of material misstatements in these financial statements due to wrongdoing or error. Although the purpose of the audits is not to express our opinions on the effectiveness of internal control, we examine the internal control related to the preparation and appropriate presentation of financial statements to design appropriate audit procedures in accordance with circumstances for implementing the risk evaluation. The audits also include an examination of the presentation of financial statements as a whole, including accounting policies adopted by management and the application method thereof and an evaluation of estimates made by management.

We believe that we have obtained sufficient and appropriate audit evidence that will become a basis upon which to express our opinion.

**Auditor's opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tsugami Corporation and subsidiaries As of March 31, 2016 and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in Japan.

**Interest**

The Company, the auditing corporation, and the engagement partners have no interests between them that should be stated under the provisions of the Certified Public Accountants Act.

1. The reports above are an electronic presentation of the original audit report. The Company (company submitting the annual securities report) keeps the original separately.
2. XBRL data are not included in the scope of financial statements.